

***Shepherd University***  
***(Formerly Shepherd College)***

*Financial Statements as of and for the  
Years Ended June 30, 2004 and 2003 and  
Independent Auditors' Reports and  
Additional Information for the Year Ended  
June 30, 2004*

**SHEPHERD UNIVERSITY**  
**(Formerly Shepherd College)**

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## INDEPENDENT AUDITORS' REPORT

Governing Board  
Shepherd University

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Shepherd University (formerly Shepherd College) (the "University") as of June 30, 2004 and 2003, and for the years then ended, which collectively comprise the University's basic financial statements as listed in the foregoing Table of Contents. 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 discretely presented financial statements of The Shepherd University Foundation, Incorporated (a 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 Shepherd University Foundation, Incorporated, 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 Shepherd University Foundation, Incorporated'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 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.

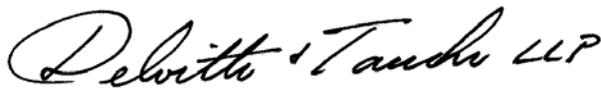
In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position and changes in net assets of the business-type activities and the discretely presented component unit of the University as of June 30, 2004 and 2003, 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.

As discussed in Note 2 to the financial statements, the University changed its financial statement presentation to adopt the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, as an amendment to GASB Statement No. 14 as of July 1, 2003.

The Management Discussion and Analysis on pages 3 to 12 is not a required part of the financial statements, but is supplementary information required by the GASB. 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules on pages 46 to 49 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. This additional information is the responsibility of the University's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2004, on our consideration of Shepherd University's internal control over financial reporting and our tests of its compliance and other matters. The purpose of that report is to describe the scope of our 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.

A handwritten signature in cursive script that reads "Deloitte & Touche LLP". The signature is written in black ink and is positioned to the left of a vertical red line.

October 8, 2004

## **Management's Discussion and Analysis Fiscal Years 2004 and 2003**

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

Shepherd University (the "University") is proud to present its financial statements for fiscal years 2004 and 2003. 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 primarily provides an overview of its financial activities for the current year and is 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, 2004, and 2003. 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 are discussed in the footnotes to the financial statements.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors, employees 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 the institution's equity in property, plant, and equipment owned by the institution. The second category is restricted net assets, which is divided into two categories, nonexpendable and expendable. Shepherd 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 institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The third category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the institution.

**Net Assets**  
**(In thousands of dollars)**

|                        | <b>FY 2004</b>   | <b>FY 2003</b>   | <b>FY 2002</b>   |
|------------------------|------------------|------------------|------------------|
| <b>Assets:</b>         |                  |                  |                  |
| Cash                   | \$9,652          | \$7,094          | \$6,347          |
| Other current Assets   | 1,130            | 1,639            | 2,232            |
| Noncurrent Assets      | <u>56,412</u>    | <u>58,511</u>    | <u>48,960</u>    |
| Total Assets           | <u>\$67,194</u>  | <u>\$ 67,244</u> | <u>\$ 57,539</u> |
| <b>Liabilities:</b>    |                  |                  |                  |
| Current Liabilities    | \$ 5,137         | \$ 5,303         | \$ 4,723         |
| Noncurrent Liabilities | <u>11,230</u>    | <u>11,932</u>    | <u>7,012</u>     |
| Total Liabilities      | <u>16,367</u>    | <u>17,235</u>    | <u>11,735</u>    |
| Net Assets             | <u>\$ 50,827</u> | <u>\$ 50,009</u> | <u>\$ 45,804</u> |

**Assets:**

- Current cash increased by approximately \$2.5 million in fiscal year 2004. Approximately \$2.1 million held in capital funds that was previously recorded as restricted cash was changed to unrestricted. The House Bill 101 passed in March 2004 legislative released the restrictions on these funds. The rest of the increase is attributable to the cash flows from operating activities, less the operating revenues used to purchase capital assets. In fiscal year 2003, current cash increased by approximately \$747,000. Part of the increase was caused by the change in payroll in arrears for fiscal year 2003.
- The amount due from primary government decreased by approximately \$822,000 in fiscal year 2004. This amount from the prior year lottery revenues was used to purchase equipment for the Community and Technical College of the University. In fiscal year 2003, the amount due from primary government decreased by \$58,000. This amount reflected the expenditures for the library addition and equipment for the Community and Technical College of Shepherd.
- Grants and contracts receivable decreased by approximately \$435,000 in fiscal year 2004. There was no receivable from the U.S. Department of Housing and Urban Development for the renovation of the Scarborough Library, compared to \$461,000 due at the end of fiscal year 2003.
- Restricted cash and cash equivalents declined by approximately \$1.7 million in fiscal year 2004. Approximately \$2.1 million in cash held in capital funds that was previously recorded in restricted cash and cash equivalents was changed to unrestricted. Cash proceeds from the sale of investments were expended as work progressed on the projects funded by the bond issue.
- Investments decreased by approximately \$4.3 million in fiscal year 2004. The investments purchased with funds from the 2003 bond issue matured in February 2004. The remaining money from the bond issue was invested in short term commercial paper.

- Capital assets increased by approximately \$4 million in fiscal year 2004. The University expended approximately \$6.1 million for building projects and approximately \$1.2 million for equipment. Depreciation expense was approximately \$3.6 million for fiscal year 2004, compared to \$2.9 million for fiscal year 2003. In fiscal year 2003, capital asset additions included approximately \$6.2 million for construction projects and approximately \$1.5 million for equipment.

**Liabilities:**

- Accounts payable declined by approximately \$510,000 in fiscal year 2004. This is primarily due to less construction activities during the summer of 2004 compared to the previous summer. The \$290,000 increase in accounts payable in fiscal year 2003 was attributable to a change in the year-end cut off process by the State Department of Administration. The last date the University could submit invoices for payment was earlier in fiscal year 2003 than in fiscal year 2002.
- Deferred revenue increased by approximately \$268,000 in fiscal year 2004. Deferred revenues associated with fiscal year 2005 summer sessions increased by approximately \$186,000. Deferred revenues related to grants also increased by approximately \$105,000 primarily due to an \$80,000 grant received for CTC Industrial Program in May 2004. In fiscal year 2003, deferred revenue decreased by approximately \$179,000 because the Department of Housing and Urban Development grant revenues were not received in advance of expenditures as they were in fiscal year 2004.
- The compensated absences liability decreased by approximately \$119,000 in fiscal year 2004 and approximately \$363,000 in fiscal year 2003. The portion of this liability associated with the sick leave retirement benefit decreased by approximately \$165,000 in fiscal year 2004 because employees hired after July 1, 2001 may not use their accumulated sick leave or faculty experience to purchase insurance after they retire. The portion of this liability associated with annual leave increased in fiscal year 2004 by approximately \$46,000 because several staff positions have been changed from classified to nonclassified. All employees who are nonclassified staff receive 24 days of annual leave each year. New employees who are classified staff receive 15 days of annual leave per year. The amount of the annual leave liability also increases as the employees' pay rates increase.

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

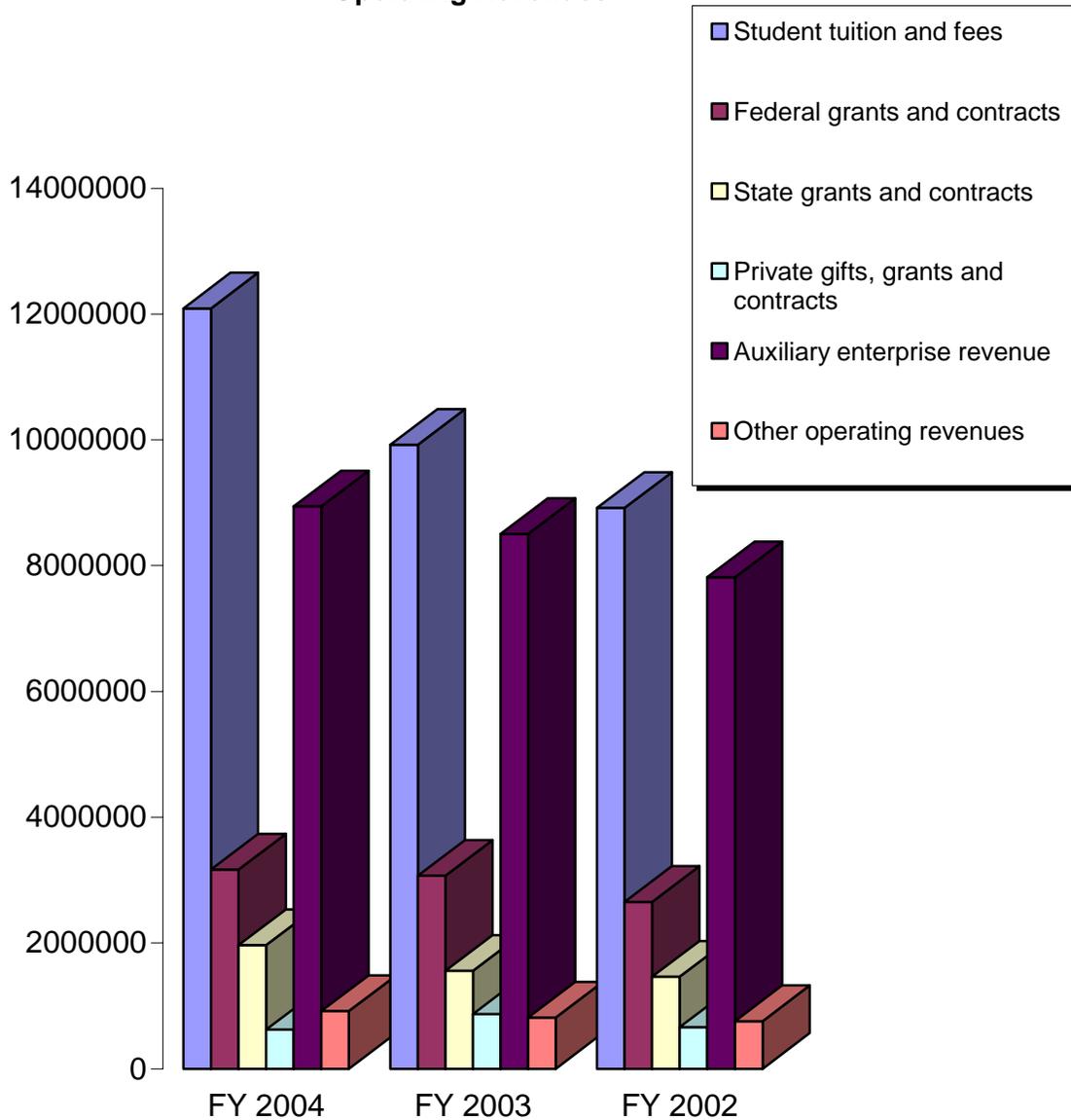
Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the institution, both operating and nonoperating, and the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

Generally speaking, operating revenues are received for providing goods and services to the 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 institution. Revenues received for which goods and services are not provided are reported as nonoperating revenues. For example, State appropriations are nonoperating because they are provided by the Legislature to the institution without the Legislature directly receiving commensurate goods and services for those revenues.

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

|   | FY 2004         | FY 2003         | FY 2002         |
|---|-----------------|-----------------|-----------------|
| Operating revenues  | \$27,779        | \$24,785        | \$22,324        |
| Operating expenses  | <u>38,942</u>   | <u>36,583</u>   | <u>34,478</u>   |
| Operating loss  | (11,163)        | (11,798)        | (12,154)        |
| Nonoperating revenues   | <u>10,492</u>   | <u>11,933</u>   | <u>12,566</u>   |
| Income (loss) before other revenues,<br>expenses, gains or losses | ( 671)          | 135             | 412             |
| Capital grants and gifts  | <u>1,489</u>    | <u>3,593</u>    | <u>5,287</u>    |
| Increase in net assets before transfers                           | 818             | 3,728           | 5,699           |
| Transfer of liability from Policy<br>Commission                   |                 |                 | (4,784)         |
| Capital projects bond proceeds from<br>the Commission             |                 | <u>478</u>      |                 |
| Increase in net assets  | 818             | 4,206           | 915             |
| Net assets – beginning of year                                    | <u>50,009</u>   | <u>45,803</u>   | <u>44,888</u>   |
| Net assets – end of year  | <u>\$50,827</u> | <u>\$50,009</u> | <u>\$45,803</u> |

## Operating Revenues

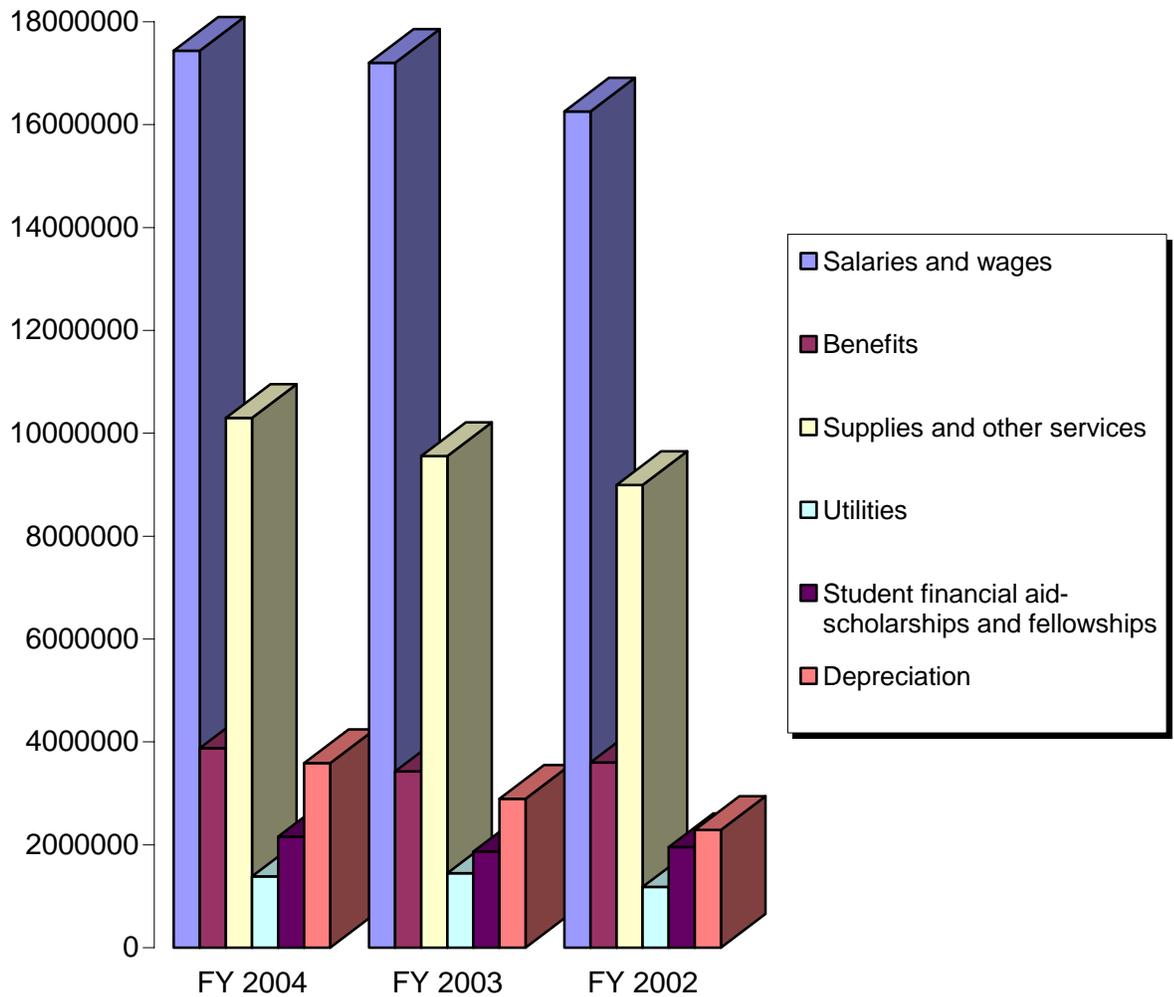


### Operating Revenues:

- Gross student tuition and fees increased by \$2.6 million for a 20% overall increase in fiscal year 2004 and \$1.5 million for a 13% overall increase in fiscal year 2003. There were 14% and 4.4% increases in non-auxiliary tuition and fee rates for undergraduate resident students in fiscal years 2004 and 2003, respectively, and 15% and 6.3% increases for nonresident students in fiscal years 2004, and 2003, respectively. The number of full-time equivalent (FTE) enrollment resident students who paid tuition increased by 5% in fiscal year 2004 and 7% in fiscal year 2003. There were also increases in several enrollment fees

- State grants and contracts increased by \$414,000 in fiscal year 2004 and by \$93,000 in fiscal year 2003. The funds received for Promise Scholarship recipients increased in fiscal year 2004. The Promise Scholarship program was initiated in fiscal year 2003.
- Private grants and contracts decreased by \$246,000. The United Auto Workers provided \$111,000 to the Community and Technical College for a technology grant in fiscal year 2003 that was not continued. The Community and Technical College also received \$150,000 from the Shepherd University Foundation in fiscal year 2003.
- Gross sales and services of auxiliary enterprises increased by \$439,000 for a 5% increase in fiscal year 2004 over fiscal year 2003. The charges for room rent increased 11% over fiscal year 2003, and the charges for the meal plan increased by 7%. During March, delaminating asbestos was discovered in Shaw and Thacher Halls. These residence halls were closed to the students before they returned from spring break. Additional housing was found on campus or procured off-campus for many of the displaced students. Other students chose to commute from home. The student's belongings were passed through a decontamination process by an asbestos abatement contractor. The costs associated with housing the students and returning their belongings totaled \$951,000, including \$180,000 in lost revenues.
- Other revenues increased by \$105,000, or 13%. The University received additional revenues related to the exclusive beverage contract.

## Operating Expenses



### Operating Expenses:

- The total cost of benefits increased by \$453,379 or 13% for fiscal year 2004 over fiscal year 2003. Health insurance increased by 11% or \$173,000 while the compensated absences liability decreased by approximately \$119,000. In fiscal year 2003, Salaries and wages increased by \$943,000 for an increase of 5.8% over fiscal year 2002.
- Supplies and other services increased \$744,000 in fiscal year 2004. This increase can be attributed to the costs of housing and returning the belongings to the residents of Shaw and Thacher Halls. In fiscal year 2003, supplies and other services increased by approximately \$564,000.

- Depreciation expense increased \$691,000. Depreciation on the renovated Ruth Scarborough Library and the Kenneth J. Boone Field House started in August 2003. Depreciation on the Frank Arts Center addition started in January 2004. Additions to depreciable capital assets, increased by approximately \$8.1 million in fiscal year 2004. In fiscal year 2003, depreciation expense increased by \$606,000 primarily due to the depreciation on the library addition, which started in August 2002.

### **Nonoperating Revenues and Expenses**

- Nonoperating revenues from state appropriations decreased by \$1.2 million or approximately 10% in fiscal year 2004. The University's appropriation declined 9.73% from the prior fiscal year. The University absorbed a 1.4% midyear reduction in its general fund appropriations in fiscal year 2004 and a 3.4% midyear reduction in 2003. In fiscal year 2003, revenues from state appropriations decreased by \$891,000 or 6.8%.
- Interest on indebtedness increased by approximately \$140,000 in both fiscal years 2004 and 2003 due to the interest on the new bond issue.
- Investment income decreased by \$226,000 in fiscal year 2004, and \$104,000 in fiscal year 2003. The University participates in the investment pool managed by the State of West Virginia. The investment pool return was less than in previous years due to the decline in the financial markets.
- The University received \$3 million from the Department of Housing and Urban Development for the Robert C. Byrd Center for Legislative Studies in fiscal year 2003. These funds were transferred to the Shepherd University Foundation. The University did not receive a similar allocation in fiscal year 2004.

### **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 provided by or used in the operating activities of the institution. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

**Statement of Cash Flows  
(In thousands of dollars)**

|  | <b>FY 2004</b>  | <b>FY 2003</b>  | <b>FY 2002</b>  |
|--|-----------------|-----------------|-----------------|
| Cash provided by (used in) by:           |                 |                 |                 |
| Operating activities                     | (\$6,834)       | (\$ 9,146)      | (\$ 9,163)      |
| Noncapital financing activities          | 11,103          | 13,028          | 13,153          |
| Capital and related financing activities | (6,174)         | 727             | (3,889)         |
| Investing activities                     | <u>4,463</u>    | <u>(3,862)</u>  | <u>495</u>      |
| Net Change in Cash                       | 2,558           | 747             | 596             |
| Cash, beginning of year                  | <u>7,094</u>    | <u>6,347</u>    | <u>5,751</u>    |
| Cash, end of year                        | <u>\$ 9,652</u> | <u>\$ 7,094</u> | <u>\$ 6,347</u> |

**Capital Assets**

The following construction projects were completed in fiscal year 2004:

|                              |             |
|------------------------------|-------------|
| Library Renovation           | \$3,282,000 |
| Frank Arts Center Addition   | 2,184,000   |
| Kenneth G. Boone Field House | 1,612,000   |

The asbestos abatement and renovation of Shaw and Thacher Halls was completed in August 2004. As of June 30, 2004, \$1 million had been expended on this project. It will cost about \$1.8 million to abate the asbestos and restore the residence halls. The University will issue debt to finance the abatement and restoration. The new parking lot was also finished in August 2004. As of June 30, 2004, \$778,000 had been expended for this project.

In fiscal year 2003, construction of the library addition was completed. The renovation of the Scarborough Library was near completion by the end of the fiscal year. \$3.1 million was received from the Department of Housing and Urban Development for these projects during the year.

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

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

The University also received \$500,000 in fiscal year 2003 from the Shepherd College Foundation for the construction of the Kenneth G. Boone Field House. Several residence hall renovation projects were completed for \$519,000.

## **Economic Outlook**

The University is facing a possible additional 5% reduction in its general fund appropriations for fiscal year 2005. Most of the reduction can be funded through enrollment growth and fee increases.

Although the economic forecasts for the state of West Virginia are negative and the number of high school graduates in the state continues to decline, the 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 should be able to remain competitive for new and returning students.

**SHEPHERD UNIVERSITY**  
**(Formerly Shepherd College)**

**STATEMENTS OF NET ASSETS**  
**JUNE 30, 2004 AND 2003**

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|  | <b>2004</b>              | <b>2003</b>              |
|--|--------------------------|--------------------------|
| <b>ASSETS:</b>   |                          |                          |
| Current Assets:  |                          |                          |
| Cash and cash equivalents  | \$ 9,651,536             | \$ 7,093,776             |
| Appropriations due from Primary Government                       |                          | 94,541                   |
| Due from the Commission  | 16,257                   | 15,626                   |
| Amount due from the State  | 13,175                   | 10,033                   |
| Accounts receivable—net  | 509,112                  | 954,382                  |
| Loans to students—current portion                                | 184,492                  | 188,264                  |
| Prepaid expenses   | 26,619                   | 20,531                   |
| Inventories  | <u>381,024</u>           | <u>356,103</u>           |
| <br>Total current assets   | <br><u>10,782,215</u>    | <br><u>8,733,256</u>     |
| Noncurrent Assets:   |                          |                          |
| Cash and cash equivalents  | 1,284,864                | 2,988,446                |
| Investments  |                          | 4,296,941                |
| Loans to students—net of allowance of \$321,184<br>and \$377,199 | 367,660                  | 421,100                  |
| Bond issuance costs  | 156,053                  | 161,562                  |
| Capital assets—net   | <u>54,603,656</u>        | <u>50,643,096</u>        |
| <br>Total noncurrent assets                                      | <br><u>56,412,233</u>    | <br><u>58,511,145</u>    |
| <br>TOTAL ASSETS   | <br><u>\$ 67,194,448</u> | <br><u>\$ 67,244,401</u> |

(Continued)

**SHEPHERD UNIVERSITY**  
**(Formerly Shepherd College)**

**STATEMENTS OF NET ASSETS**  
**JUNE 30, 2004 AND 2003**

|  | <b>2004</b>          | <b>2003</b>          |
|--|----------------------|----------------------|
| <b>LIABILITIES:</b>                            |                      |                      |
| Current Liabilities:                           |                      |                      |
| Accounts payable                               | \$ 2,121,739         | \$ 2,631,732         |
| Accrued liabilities                            | 520,672              | 558,260              |
| Due to the Commission                          | 116,928              | 51,958               |
| Due to other State agencies                    | 56,288               | 6,926                |
| Compensated absences—current portion           | 593,787              | 598,234              |
| Debt obligation due Commission—current portion | 451,799              | 595,598              |
| Deferred revenue                               | 999,708              | 731,858              |
| Deposits                                       | 164,490              | 125,293              |
| Bonds payable- current portion                 | 105,000              |                      |
| Capital lease obligation—current portion       | <u>6,433</u>         | <u>3,770</u>         |
| Total current liabilities                      | <u>5,136,844</u>     | <u>5,303,629</u>     |
| Noncurrent Liabilities:                        |                      |                      |
| Advances from federal sponsors                 | 762,119              | 788,078              |
| Compensated absences                           | 1,412,926            | 1,527,165            |
| Debt obligation due Commission                 | 3,148,020            | 3,620,223            |
| Bonds payable                                  | 5,885,000            | 5,990,000            |
| Capital lease obligation                       | <u>22,903</u>        | <u>6,152</u>         |
| Total noncurrent liabilities                   | <u>11,230,968</u>    | <u>11,931,618</u>    |
| <b>TOTAL LIABILITIES</b>                       | <u>16,367,812</u>    | <u>17,235,247</u>    |
| <b>NET ASSETS:</b>                             |                      |                      |
| Invested in capital assets—net of related debt | <u>45,807,178</u>    | <u>44,377,331</u>    |
| Restricted for—                                |                      |                      |
| Expendable:                                    |                      |                      |
| Specific purpose by State Code                 |                      | 3,198,554            |
| Scholarships                                   |                      | 36,951               |
| Loans  | 82,122               | 45,533               |
| Debt service                                   | 600,030              | 664,772              |
| Other restricted                               | 21,281               | 30,480               |
| Capital projects                               | <u>655,863</u>       | <u>160,462</u>       |
| Total expendable                               | 1,359,296            | 4,136,752            |
| Unrestricted                                   | <u>3,660,162</u>     | <u>1,495,071</u>     |
| Total net assets                               | <u>50,826,636</u>    | <u>50,009,154</u>    |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>        | <u>\$ 67,194,448</u> | <u>\$ 67,244,401</u> |

See notes to financial statements.

(Concluded)

**SHEPHERD UNIVERSITY**  
**(Formerly Shepherd College)**

**THE SHEPHERD UNIVERSITY FOUNDATION, INCORPORATED,**  
**A COMPONENT UNIT OF SHEPHERD UNIVERSITY**  
**STATEMENTS OF NET ASSETS**  
**JUNE 30, 2004 AND 2003**

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| <b><u>ASSETS</u></b>                         | <b>2004</b>                | <b>2003</b>                |
|--|----------------------------|----------------------------|
| <b>ASSETS:</b>                               |                            |                            |
| Cash and cash equivalents                    | \$ 1,080,771               | \$ 404,780                 |
| Pledges receivable                           | 4,830                      | 197,775                    |
| Contributions receivable                     | 21,164                     |                            |
| Accrued interest receivable                  | 103,887                    | 123,481                    |
| Prepaid expenses                             | 4,356                      | 3,678                      |
| Investments                                  | 18,060,926                 | 16,822,470                 |
| Equipment, net                               | <u>2,953</u>               | <u>3,307</u>               |
| <b>TOTAL ASSETS</b>                          | <b><u>\$19,278,887</u></b> | <b><u>\$17,555,491</u></b> |
| <br><b><u>LIABILITIES AND NET ASSETS</u></b> |                            |                            |
| <b>LIABILITIES:</b>                          |                            |                            |
| Accounts payable                             | \$ 187                     | \$ 4,551                   |
| Accrued payroll expenses                     | 4,153                      | 1,934                      |
| Custodial liabilities                        | 2,909,169                  | 3,090,681                  |
| Gift annuities payable                       | <u>137,562</u>             | <u>123,438</u>             |
| Total liabilities                            | <u>3,051,071</u>           | <u>3,220,604</u>           |
| <br><b>NET ASSETS:</b>                       |                            |                            |
| Unrestricted                                 | 130,742                    | 9,447                      |
| Temporarily restricted                       | 617,235                    | 794,916                    |
| Permanently restricted                       | <u>15,479,839</u>          | <u>13,530,524</u>          |
| Total net assets                             | <u>16,227,816</u>          | <u>14,334,887</u>          |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>      | <b><u>\$19,278,887</u></b> | <b><u>\$17,555,491</u></b> |

See notes to financial statements.

**SHEPHERD UNIVERSITY**  
**(Formerly Shepherd College)**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

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|  | <b>2004</b>             | <b>2003</b>             |
|--|-------------------------|-------------------------|
| <b>OPERATING REVENUES:</b>   |                         |                         |
| Student tuition and fees (net of scholarship allowance of \$3,282,227 and \$2,837,078) | \$ 12,089,915           | \$ 9,922,447            |
| Contracts and grants:  |                         |                         |
| Federal  | 3,168,944               | 3,067,513               |
| State  | 1,973,532               | 1,559,086               |
| Private  | 624,315                 | 870,748                 |
| Interest on student loans receivable   | 23,548                  | 16,333                  |
| Sales and services of educational activities   | 35,610                  | 29,143                  |
| Auxiliary enterprise revenue (net of scholarship allowance of \$ 49,299 and \$77,562)  | 8,944,331               | 8,505,604               |
| Other operating revenues   | <u>918,974</u>          | <u>814,043</u>          |
| <br>Total operating revenues   | <br><u>27,779,169</u>   | <br><u>24,784,917</u>   |
| <b>OPERATING EXPENSES:</b>   |                         |                         |
| Salaries and wages   | 17,438,507              | 17,200,179              |
| Benefits   | 3,881,868               | 3,428,489               |
| Supplies and other services  | 10,301,146              | 9,562,295               |
| Utilities  | 1,386,891               | 1,448,655               |
| Student financial aid—scholarships and fellowships                                     | 2,158,624               | 1,869,652               |
| Depreciation   | 3,585,419               | 2,894,376               |
| Fees assessed by the Commission for operations   | <u>190,212</u>          | <u>179,212</u>          |
| <br>Total operating expenses   | <br><u>38,942,667</u>   | <br><u>36,582,858</u>   |
| <br><b>OPERATING LOSS</b>  | <br><u>(11,163,498)</u> | <br><u>(11,797,941)</u> |

(Continued)

**SHEPHERD UNIVERSITY**  
**(Formerly Shepherd College)**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

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|   | <b>2004</b>          | <b>2003</b>          |
|---|----------------------|----------------------|
| NONOPERATING REVENUES (EXPENSES):                                 |                      |                      |
| State appropriations  | \$ 11,008,431        | \$ 12,206,156        |
| Federal grants  |                      | 3,000,000            |
| Center for Legislative Studies expenditure                        |                      | (3,000,000)          |
| Investment income   | 164,648              | 391,130              |
| Interest on indebtedness  | (285,173)            | (144,838)            |
| Fees assessed by the Commission                                   | (260,029)            | (456,078)            |
| Loss on disposal of equipment                                     | <u>(45,797)</u>      | <u>(63,636)</u>      |
| Net nonoperating revenues   | <u>10,582,080</u>    | <u>11,932,734</u>    |
| INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES,<br>GAINS OR LOSSES | (581,418)            | 134,793              |
| CAPITAL GRANTS AND GIFTS  | <u>1,489,259</u>     | <u>3,593,015</u>     |
| INCREASE IN NET ASSETS BEFORE TRANSFERS                           | 907,841              | 3,727,808            |
| TRANSFER OF FUNDS (LIABILITY) FROM<br>THE COMMISSION              | <u>(90,359)</u>      | <u>477,800</u>       |
| INCREASE IN NET ASSETS  | 817,482              | 4,205,608            |
| NET ASSETS—Beginning of year                                      | <u>50,009,154</u>    | <u>45,803,546</u>    |
| NET ASSETS—End of year  | <u>\$ 50,826,636</u> | <u>\$ 50,009,154</u> |
| See notes to financial statements.                                |                      | (Concluded)          |

**SHEPHERD UNIVERSITY**  
**(Formerly Shepherd College)**

**THE SHEPHERD UNIVERSITY FOUNDATION, INCORPORATED**  
**A COMPONENT UNIT OF SHEPHERD UNIVERSITY**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2004**

|  | Unrestricted      | Temporarily<br>Restricted | Permanently<br>Restricted | Total                |
|--|-------------------|---------------------------|---------------------------|----------------------|
| <b>REVENUE AND OTHER SUPPORT:</b>                      |                   |                           |                           |                      |
| Cash contributions                                     | \$ -              | \$ 316,839                | \$ 512,331                | \$ 829,170           |
| Stock Contributions                                    |                   |                           | 65,035                    | 65,035               |
| Other non-cash contributions                           |                   |                           | 1,464,500                 | 1,464,500            |
| Other revenue  | 75,466            | 7,085                     |                           | 82,551               |
| Interest and dividends                                 | 420,294           | 172,572                   | 1,520                     | 594,386              |
| Net realized and unrealized<br>(losses) on investments | (111,896)         |                           | 25,369                    | (86,527)             |
| Net assets released from restrictions                  | <u>793,617</u>    | <u>(674,177)</u>          | <u>(119,440)</u>          | <u></u>              |
| Total revenues, and other support                      | <u>1,177,481</u>  | <u>(177,681)</u>          | <u>1,949,315</u>          | <u>2,949,115</u>     |
| <b>EXPENSES:</b>                                       |                   |                           |                           |                      |
| Program services:                                      |                   |                           |                           |                      |
| Scholarships and awards                                | 692,581           |                           |                           | 692,581              |
| College Support  | 101,403           |                           |                           | 101,403              |
| General and administrative:                            |                   |                           |                           |                      |
| Salaries   | 114,393           |                           |                           | 114,393              |
| Investment management fees                             | 50,518            |                           |                           | 50,518               |
| Printing and reproduction costs                        | 12,743            |                           |                           | 12,743               |
| Payroll taxes and benefits                             | 15,292            |                           |                           | 15,292               |
| Depreciation   | 4,864             |                           |                           | 4,864                |
| Administrative expense                                 | 1,900             |                           |                           | 1,900                |
| Rent   | 5,400             |                           |                           | 5,400                |
| Office supplies and postage                            | 6,792             |                           |                           | 6,792                |
| Insurance  | 7,773             |                           |                           | 7,773                |
| Changes in gift annuities                              | 10,738            |                           |                           | 10,738               |
| Professional fees                                      | 10,461            |                           |                           | 10,461               |
| Staff development                                      | 4,257             |                           |                           | 4,257                |
| Development  | 15,921            |                           |                           | 15,921               |
| Telephone  | 849               |                           |                           | 849                  |
| Technology   | 174               |                           |                           | 174                  |
| Miscellaneous  | <u>127</u>        |                           |                           | <u>127</u>           |
| Total expenses   | <u>1,056,186</u>  | <u>-</u>                  | <u>-</u>                  | <u>1,056,186</u>     |
| INCREASE (DECREASE) IN NET ASSETS                      | 121,295           | (177,681)                 | 1,949,315                 | 1,892,929            |
| NET ASSETS, BEGINNING OF YEAR                          | <u>9,447</u>      | <u>794,916</u>            | <u>13,530,524</u>         | <u>14,334,887</u>    |
| NET ASSETS, END OF YEAR                                | <u>\$ 130,742</u> | <u>\$ 617,235</u>         | <u>\$ 15,479,839</u>      | <u>\$ 16,227,816</u> |

See notes to financial statements.

**SHEPHERD UNIVERSITY**  
**(Formerly Shepherd College)**

**THE SHEPHERD UNIVERSITY FOUNDATION, INCORPORATED**  
**A COMPONENT UNIT OF SHEPHERD UNIVERSITY**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2003**

|  | Unrestricted     | Temporarily<br>Restricted   | Permanently<br>Restricted   | Total                       |
|--|------------------|-----------------------------|-----------------------------|-----------------------------|
| <b>REVENUES AND OTHER SUPPORT:</b>                     |                  |                             |                             |                             |
| Cash contributions                                     | \$ -             | \$ 174,764                  | \$ 259,288                  | \$ 434,052                  |
| Stock Contributions                                    |                  | 300                         | 72,433                      | 72,733                      |
| Other revenue  | 11,409           | 180                         |                             | 11,589                      |
| Interest and dividends                                 | 350,015          | 219,075                     | 2,189                       | 571,279                     |
| Net realized and unrealized<br>(losses) on investments | 22,542           |                             |                             | 22,542                      |
| Net assets released from restrictions                  | <u>1,086,517</u> | <u>(605,272)</u>            | <u>(481,245)</u>            | <u>                    </u> |
| Total revenues and other support                       | <u>1,470,483</u> | <u>(210,953)</u>            | <u>(147,335)</u>            | <u>1,112,195</u>            |
| <b>EXPENSES:</b>                                       |                  |                             |                             |                             |
| Program services                                       |                  |                             |                             |                             |
| Scholarships and awards                                | 1,146,956        |                             |                             | 1,146,956                   |
| College Support  | 108,010          |                             |                             | 108,010                     |
| General and administrative:                            |                  |                             |                             |                             |
| Salaries   | 99,455           |                             |                             | 99,455                      |
| Investment management fees                             | 48,989           |                             |                             | 48,989                      |
| Printing and reproduction costs                        | 11,664           |                             |                             | 11,664                      |
| Payroll taxes and benefits                             | 12,588           |                             |                             | 12,588                      |
| Depreciation   | 5,255            |                             |                             | 5,255                       |
| Administrative expense                                 | 771              |                             |                             | 771                         |
| Rent   | 3,600            |                             |                             | 3,600                       |
| Office supplies and postage                            | 7,955            |                             |                             | 7,955                       |
| Insurance  | 4,769            |                             |                             | 4,769                       |
| Changes in gift annuities                              | 9,169            |                             |                             | 9,169                       |
| Professional fees                                      | 8,785            |                             |                             | 8,785                       |
| Development  | 17,302           |                             |                             | 17,302                      |
| Telephone  | 1,517            |                             |                             | 1,517                       |
| Technology   | 1,320            |                             |                             | 1,320                       |
| Miscellaneous  | <u>166</u>       | <u>                    </u> | <u>                    </u> | <u>166</u>                  |
| Total expenses   | <u>1,488,271</u> | <u>-</u>                    | <u>-</u>                    | <u>1,488,271</u>            |
| <b>CHANGE IN NET ASSETS</b>                            | (17,788)         | (210,953)                   | (147,335)                   | (376,076)                   |
| <b>NET ASSETS, BEGINNING OF YEAR</b>                   | <u>27,235</u>    | <u>1,005,869</u>            | <u>13,677,859</u>           | <u>14,710,963</u>           |
| <b>NET ASSETS, END OF YEAR</b>                         | <u>\$ 9,447</u>  | <u>\$ 794,916</u>           | <u>\$ 13,530,524</u>        | <u>\$ 14,334,887</u>        |

See notes to financial statements.

**SHEPHERD UNIVERSITY**  
**(Formerly Shepherd College)**

**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2004 AND 2003**

|   | <b>2004</b>                | <b>2003</b>                |
|---|----------------------------|----------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                          |                            |                            |
| Student tuition and fees  | \$ 12,562,041              | \$ 10,019,023              |
| Contracts and grants  | 5,996,508                  | 4,950,004                  |
| Payments to and on behalf of employees                                | (21,482,737)               | (20,703,069)               |
| Payments to suppliers   | (10,376,664)               | (9,371,179)                |
| Payments to utilities   | (1,248,078)                | (1,418,641)                |
| Payments for scholarships and fellowships                             | (2,158,625)                | (1,869,652)                |
| Loans issued to students  | (110,491)                  | (96,187)                   |
| Collection of loans to students                                       | 167,703                    | 222,813                    |
| Sales and service of educational activities                           | 35,609                     | 29,143                     |
| Auxiliary enterprise charges  | 8,992,102                  | 8,437,419                  |
| Fees retained by Commission   | (125,243)                  | (151,047)                  |
| Other receipts—net  | <u>913,420</u>             | <u>804,859</u>             |
| Net cash used in operating activities                                 | <u>(6,834,455)</u>         | <u>(9,146,514)</u>         |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>               |                            |                            |
| State appropriations  | 11,102,972                 | 13,028,302                 |
| Federal student loan program—direct lending receipts                  | 10,311,542                 | 10,222,591                 |
| Federal student loan program—direct lending payments                  | (10,311,542)               | (10,222,591)               |
| Federal grants received   | _____                      | 3,000,000                  |
| Center for Legislative Studies expenditure                            | _____                      | <u>(3,000,000)</u>         |
| Net cash provided by noncapital financing activities                  | <u>11,102,972</u>          | <u>13,028,302</u>          |
| <b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:</b>                  |                            |                            |
| Capital grants and gifts received                                     | 1,489,259                  | 3,593,015                  |
| Proceeds from capital debt  | 23,185                     | 5,990,000                  |
| Bond issuance costs   | 5,509                      | (163,943)                  |
| Interest paid on capital debt and leases                              | (285,173)                  | (118,732)                  |
| Appropriations from Primary Governments                               | _____                      | 477,800                    |
| Purchases of capital assets   | (8,140,620)                | (7,781,319)                |
| Principal paid on capital debt and leases                             | (619,772)                  | (579,642)                  |
| Increase in noncurrent cash and cash equivalents                      | 1,703,581                  | (234,308)                  |
| Debt service assessed by the Commission for debt service and reserves | <u>(350,388)</u>           | <u>(456,078)</u>           |
| Net cash (used in) provided by capital financing activities           | <u>(6,174,419)</u>         | <u>726,793</u>             |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                          |                            |                            |
| Sales (purchases) of investments                                      | 4,296,941                  | (4,296,941)                |
| Interest on investments   | <u>166,721</u>             | <u>435,041</u>             |
| Net cash provided by (used in) investing activities                   | <u>4,463,662</u>           | <u>(3,861,900)</u>         |
| <b>INCREASE IN CASH AND CASH EQUIVALENTS</b>                          | <b>2,557,760</b>           | <b>746,681</b>             |
| <b>CASH AND CASH EQUIVALENTS—Beginning of year</b>                    | <b><u>7,093,776</u></b>    | <b><u>6,347,095</u></b>    |
| <b>CASH AND CASH EQUIVALENTS—End of year</b>                          | <b><u>\$ 9,651,536</u></b> | <b><u>\$ 7,093,776</u></b> |

(Continued)

**SHEPHERD UNIVERSITY  
(Formerly Shepherd College)**

**STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2004 AND 2003**

|   | <b>2004</b>               | <b>2003</b>               |
|---|---------------------------|---------------------------|
| RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:        |                           |                           |
| Operating loss  | \$ (11,163,498)           | \$ (11,797,941)           |
| Adjustments to reconcile net operating loss to net cash used in operating activities: |                           |                           |
| Depreciation expense  | 3,585,419                 | 2,894,376                 |
| Changes in assets and liabilities:  |                           |                           |
| Accounts receivables—net  | 445,270                   | (362,613)                 |
| Loans to students—net   | 57,213                    | 126,627                   |
| Due from the Commission   | (2,705)                   | 13,885                    |
| Due from other State agencies   | (3,142)                   | (4,201)                   |
| Prepaid expenses  | (6,089)                   | (946)                     |
| Inventories   | (24,921)                  | 66,270                    |
| Accounts payable  | 38,853                    | 147,934                   |
| Accrued liabilities   | (37,588)                  | 289,313                   |
| Compensated absences  | (118,686)                 | (362,770)                 |
| Due to the Commission   | 64,970                    | 28,165                    |
| Due to other State agencies   | 49,362                    | 6,926                     |
| Deferred revenue  | 267,850                   | (179,044)                 |
| Deposits held in custody for others   | 39,196                    | 8,821                     |
| Advances from Federal Sponsors  | <u>(25,959)</u>           | <u>(21,316)</u>           |
| <br>NET CASH USED IN OPERATING ACTIVITIES   | <br><u>\$ (6,834,455)</u> | <br><u>\$ (9,146,514)</u> |

See notes to financial statements.

(Concluded)

# SHEPHERD UNIVERSITY (Formerly Shepherd College)

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2004 AND 2003

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### 1. ORGANIZATION

Shepherd University (formerly Shepherd College) (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. Beginning for fiscal year ending June 30, 2005, S.B. 448 requires 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 exact amounts to be transferred have not yet been determined. As Shepherd University had previously met the criteria for university status and had been granted that status by the Commission, S.B. 448 also made effective Shepherd University’s designation as a university.

### 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. 34). 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.

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 that, along with all State institutions of higher education

and the Commission (which includes West Virginia Network for Educational Telecomputing), form the Higher Education Fund of the State. The Higher Education Fund is considered a component unit of the State, and its financial statements are discretely presented in the State's comprehensive annual financial report.

The accompanying financial statements present all funds under the authority of 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 to GASB Statement No. 14. As a result, the audited financial statements of The Shepherd University Foundation, Incorporated (the "Foundation") are presented here with the University's financial statements for the fiscal years ended June 20, 2004 and 2003. 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 11 and 16).

**Financial Statement Presentation**—During fiscal 2002, the University adopted GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statements No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus an amendment of GASB Statements No. 21 and No. 34*, and No. 38, *Certain Financial Statement Note Disclosures*. These statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a combined basis to focus on the University as a whole. 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. For 2004, these restrictions are for auxiliaries and capital items. For 2003, these restrictions were primarily for the following: debt service; graduate or branch colleges; off campus instruction; student union; public interest research groups; libraries, library supplies, and improvement in student services; faculty improvement; health education student loan fund; health sciences education;

athletic programs; student activities; auxiliary operations; bookstore operations; and special programs. These activities are fundamental to the normal ongoing operations of the institution. These restrictions are subject to change by future actions of the West Virginia 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, 2004 or 2003.
- *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 statements of net assets, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

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

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

***Allowance for Doubtful Accounts***—It is the 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, 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 Wachovia Bank. These funds primarily represented unexpended proceeds of bond issuances, and were restricted to expenditures for capital improvements and bond related costs. Funds on deposit were invested in a money market fund sponsored by an investment company, the underlying securities of which were securities of the U.S. government, its agencies, authorities and instrumentalities. These funds were classified as long term due to the restrictions, but were available for immediate withdrawal.

**Bond Issuance Costs**—Bond issuance costs consist of costs that have been incurred in connection with the issuance of the 2004 Student Fee Revenue Bonds. These costs, consisting primarily of the underwriter’s discount and legal and consulting fees, are amortized over the terms of the bonds.

**Capital Assets**—Capital assets include property, plant and equipment, books and materials that are part of a catalogued library, and infrastructure assets. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and infrastructure, 20 years for land improvements and library books, and 3 to 10 years for furniture and equipment. The University capitalizes all purchases of library books and uses a capitalization threshold of \$1,000 for other capital assets.

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

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

The estimate of the liability for the extended health or life insurance benefit has been calculated using the vesting method in accordance with the provisions of GASB Statement No. 16. Under that method, the 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 medical malpractice 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.

***Classification of Revenues***—The University has classified its revenues as either operating or nonoperating 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.

***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 balance sheets as the loans are repayable directly to the U.S. Department of Education. In 2004 and 2003, the University received and disbursed

approximately \$10,300,000 and \$9,500,000, 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 2004 and 2003, the University received and disbursed approximately \$2,872,000 and \$2,650,000, 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.

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

The GASB has also issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, effective for fiscal years beginning after December 15, 2004. This statement requires the University to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred and record impaired assets and impairment losses accordingly. This statement also addresses the appropriate recording of an insurance recovery associated with events or changes in circumstances resulting in impairment of a capital assets. The University has not yet determined the effect that the adoption of GASB Statement No. 42 may have on the financial statements.

The GASB has also 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. The University has not yet determined the effect that the adoption of GASB Statement No. 45 may have on the financial statements.

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

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

### 3. CASH AND CASH EQUIVALENTS

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

|  | <b>2004</b>        |                             |                     |
|--|--------------------|-----------------------------|---------------------|
|  | <b>Current</b>     | <b>Noncurrent</b>           | <b>Total</b>        |
| Cash on deposit with the State Treasurer | \$9,256,930        | \$ -                        | \$ 9,256,930        |
| Cash with Bond Trustee                   |                    | 1,284,864                   | 1,284,864           |
| Cash in bank                             | <u>394,606</u>     | <u>                    </u> | <u>394,606</u>      |
|  | <u>\$9,651,536</u> | <u>\$1,284,864</u>          | <u>\$10,936,400</u> |
|  | <b>2003</b>        |                             |                     |
|  | <b>Current</b>     | <b>Noncurrent</b>           | <b>Total</b>        |
| Cash on deposit with the State Treasurer | \$6,657,714        | \$2,812,471                 | \$ 9,470,185        |
| Cash with Bond Trustee                   |                    | 175,975                     | 175,975             |
| Cash in bank                             | <u>436,062</u>     | <u>                    </u> | <u>436,062</u>      |
|  | <u>\$7,093,776</u> | <u>\$2,988,446</u>          | <u>\$10,082,222</u> |

Cash on deposit with the State Treasurer includes \$191,600 in 2004 and \$424,884 in 2003 of restricted cash for the library renovation project, grants, and loans.

The combined carrying amount of cash in the bank at June 30, 2004 and 2003 was \$394,606 and \$436,062, respectively, as compared with the combined bank balance of \$528,150 and \$541,809, 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 on deposit with the Treasurer is a noncategorized deposit in accordance with GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*.

#### 4. ACCOUNTS RECEIVABLE

Accounts receivable were as follows at June 30:

|  | 2004              | 2003              |
|--|-------------------|-------------------|
| Student tuition and fees—net of allowance for doubtful accounts of \$206,737 and \$133,330 | \$ 286,559        | \$ 297,068        |
| Grants and contracts receivable  | <u>222,553</u>    | <u>657,314</u>    |
|  | <u>\$ 509,112</u> | <u>\$ 954,382</u> |

#### 5. CAPITAL ASSETS

The following is a summary of capital assets transactions for the University for the years ended June 30:

|  | 2004                 |                      |                     |                      |
|--|----------------------|----------------------|---------------------|----------------------|
|  | Beginning Balance    | Additions            | Reductions          | Ending Balance       |
| Capital assets not being depreciated:      |                      |                      |                     |                      |
| Land                                       | \$ 945,577           | \$ -                 | \$ -                | \$ 945,577           |
| Construction in progress                   | <u>3,041,107</u>     | <u>6,124,881</u>     | <u>6,594,954</u>    | <u>2,571,034</u>     |
| Total capital assets not being depreciated | <u>\$ 3,986,684</u>  | <u>\$ 6,124,881</u>  | <u>\$ 6,594,954</u> | <u>\$ 3,516,611</u>  |
| Other capital assets:                      |                      |                      |                     |                      |
| Land Improvements                          | \$ 265,135           | \$ 32,425            | \$ -                | \$ 297,560           |
| Infrastructure                             | 610,946              | 148,841              |                     | 759,787              |
| Buildings                                  | 61,410,591           | 6,459,484            |                     | 67,870,075           |
| Equipment                                  | 7,349,512            | 1,206,355            | 194,961             | 8,360,906            |
| Library Books                              | <u>3,236,345</u>     | <u>214,744</u>       | <u>30,712</u>       | <u>3,420,377</u>     |
| Total other capital assets                 | <u>72,872,529</u>    | <u>8,061,849</u>     | <u>225,673</u>      | <u>80,708,705</u>    |
| Less accumulated depreciation for:         |                      |                      |                     |                      |
| Land Improvements                          | 11,880               | 20,801               |                     | 32,681               |
| Infrastructure                             | 516,204              | 16,238               |                     | 532,442              |
| Buildings                                  | 19,469,273           | 2,240,150            |                     | 21,709,423           |
| Equipment                                  | 3,966,387            | 1,069,570            | 149,164             | 4,886,793            |
| Library Books                              | <u>2,252,373</u>     | <u>238,660</u>       | <u>30,712</u>       | <u>2,460,321</u>     |
| Total accumulated depreciation             | <u>26,216,117</u>    | <u>3,585,419</u>     | <u>179,876</u>      | <u>29,621,660</u>    |
| Other capital assets—net                   | <u>\$ 46,656,412</u> | <u>\$ 4,476,430</u>  | <u>\$ 45,797</u>    | <u>\$ 51,087,045</u> |
| Capital asset summary:                     |                      |                      |                     |                      |
| Capital assets not being depreciated       | \$ 3,986,684         | \$ 6,124,881         | \$ 6,594,954        | \$ 3,516,611         |
| Other capital assets                       | <u>72,872,529</u>    | <u>8,061,849</u>     | <u>225,673</u>      | <u>80,708,705</u>    |
| Total cost of capital assets               | 76,859,213           | 14,186,730           | 6,820,627           | 84,225,316           |
| Less accumulated depreciation              | <u>26,216,117</u>    | <u>3,585,419</u>     | <u>179,876</u>      | <u>29,621,660</u>    |
| Capital assets—net                         | <u>\$ 50,643,096</u> | <u>\$ 10,601,311</u> | <u>\$ 6,640,751</u> | <u>\$ 54,603,656</u> |

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

In April 2004, the Board of Governors passed a resolution expressing its approval in concept of the issuance of tax exempt revenue bonds in one or more series in an aggregate principal amount not to exceed \$25,000,000 to finance all or a portion of the costs of planning, design, acquisition, construction and equipping of a new student housing project and associated parking lots, new west campus roadways and utilities infrastructure, renovations of existing residence halls including without limitation Shaw Hall and Thacher Hall, and other capital improvements for use by the University.

## 6. LONG-TERM LIABILITIES

The following is a summary of long-term obligation transactions for the University for the years ended June 30:

|                                | <b>2004</b>                  |                   |                   |                           |                            |
|--------------------------------|------------------------------|-------------------|-------------------|---------------------------|----------------------------|
|                                | <b>Beginning<br/>Balance</b> | <b>Additions</b>  | <b>Reductions</b> | <b>Ending<br/>Balance</b> | <b>Current<br/>Portion</b> |
| Long-term liabilities:         |                              |                   |                   |                           |                            |
| Accrued compensated absences   | \$ 2,125,399                 | \$                | \$ 118,686        | \$ 2,006,713              | \$ 593,787                 |
| Debt obligation due Commission | 4,215,821                    | 90,359            | 706,361           | 3,599,819                 | 451,799                    |
| Bonds payable                  | 5,990,000                    |                   |                   | 5,990,000                 | 105,000                    |
| Capital lease obligations      | 9,922                        | 23,184            | 3,770             | 29,336                    | 6,433                      |
| Advances from federal sponsors | 788,078                      |                   | 25,959            | 762,119                   |                            |
| Total long-term liabilities    | <u>\$ 13,129,220</u>         | <u>\$ 113,543</u> | <u>\$ 854,776</u> | <u>\$ 12,387,987</u>      | <u>\$ 1,157,019</u>        |

|                                | <b>2003</b>                  |                     |                   |                           |                            |
|--------------------------------|------------------------------|---------------------|-------------------|---------------------------|----------------------------|
|                                | <b>Beginning<br/>Balance</b> | <b>Additions</b>    | <b>Reductions</b> | <b>Ending<br/>Balance</b> | <b>Current<br/>Portion</b> |
| Long-term liabilities:         |                              |                     |                   |                           |                            |
| Accrued compensated absences   | \$ 2,488,166                 | \$ -                | \$ 362,767        | \$ 2,125,399              | \$ 598,234                 |
| Debt obligation due Commission | 4,784,214                    |                     | 568,393           | 4,215,821                 | 595,598                    |
| Bonds payable                  |                              | 5,990,000           |                   | 5,990,000                 |                            |
| Capital lease obligations      | 15,500                       | 5,670               | 11,248            | 9,922                     | 3,770                      |
| Advances from federal sponsors | 809,394                      |                     | 21,316            | 788,078                   |                            |
| Total long-term liabilities    | <u>\$ 8,097,274</u>          | <u>\$ 5,995,670</u> | <u>\$ 963,724</u> | <u>\$ 13,129,220</u>      | <u>\$ 1,197,602</u>        |

## 7. BONDS

Bonds payable consisted of the following at June 30:

|  | <b>Interest<br/>Rate</b> | <b>Principal<br/>Installment Due</b> | <b>Amount<br/>Outstanding</b> |              |
|--|--------------------------|--------------------------------------|-------------------------------|--------------|
|  |                          |                                      | <b>2004</b>                   | <b>2003</b>  |
| Student Fee Revenue Bonds due through 2033 | 3.0% to<br>5.125%        | \$ 105,000 to<br>\$ 370,000          | \$5,990,000                   | \$ 5,990,000 |

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

The Bonds consist of \$1,495,000 Serial Bonds with varying interest rates from 3.00% to 4.45%, and mature serially from December 1, 2004 to December 1, 2015. Term Bonds of \$500,000, \$1,025,000, and \$2,970,000 bear interest at 5.000%, 5.100%, and 5.125%, respectively, and mature December 1, 2018,

December 1, 2023, and December 1, 2033, respectively. Term Bonds are subject to mandatory redemption prior to maturity from December 1, 2016 through 2028. The redemption prices are 100% of the principal amount, plus accrued interest.

The debt service reserve fund must maintain deposits totaling \$390,108 as required by the Indenture. Deposits in the debt service reserve funds totaled \$409,179 and \$393,097 as of June 30, 2004 and 2003, respectively.

A summary of the annual aggregate principal and interest payments for years subsequent to June 30, 2004 is as follows:

| <b>Year Ending<br/>June 30</b> | <b>Principal</b>   | <b>Interest</b>    |
|--------------------------------|--------------------|--------------------|
| 2005                           | \$ 105,000         | \$ 284,708         |
| 2006                           | 105,000            | 281,558            |
| 2007                           | 110,000            | 278,408            |
| 2008                           | 115,000            | 275,108            |
| 2009                           | 115,000            | 271,658            |
| 2010-2014                      | 650,000            | 1,293,208          |
| 2015-2019                      | 795,000            | 1,142,773          |
| 2020-2024                      | 1,025,000          | 922,988            |
| 2025-2029                      | 1,300,000          | 637,475            |
| 2030-2033                      | <u>1,670,000</u>   | <u>265,731</u>     |
| Total                          | <u>\$5,990,000</u> | <u>\$5,653,615</u> |

## **8. COMPENSATED ABSENCES**

The composition of the compensated absence liability was as follows at June 30:

|                                   | <b>2004</b>        | <b>2003</b>        |
|-----------------------------------|--------------------|--------------------|
| Health or life insurance benefits | \$1,140,754        | \$1,305,344        |
| Accrued vacation leave            | <u>865,959</u>     | <u>820,055</u>     |
|                                   | <u>\$2,006,713</u> | <u>\$2,125,399</u> |

The cost of health and life insurance benefits paid by the College is based on a combination of years of service and age. For the years ended June 30, 2004 and 2003, the amount paid by the University for extended health or life insurance coverage retirement benefits totaled approximately \$65,483 and \$68,958, respectively. As of June 30, 2004 and 2003, there were 35 and 36 retirees, respectively, currently receiving these benefits.

## **9. 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.

For the years ended June 30, 2004 and 2003 the debt service assessed was as follows:

|           | <b>2004</b>       | <b>2003</b>         |
|-----------|-------------------|---------------------|
| Principal | \$ 706,361        | \$ 568,393          |
| Interest  | 103,160           | 283,620             |
| Other     | <u>156,869</u>    | <u>172,458</u>      |
|           | <u>\$ 966,390</u> | <u>\$ 1,024,471</u> |

## **10. 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”). 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. As of June 30, 2004, no employees were enrolled in the Educators Money 401(a) basic retirement 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, 2004 and 2003. Required employee contributions were at the rate of 6% of total annual salary for the years ended June 30, 2004 and 2003. Participants in the STRS may retire with full benefits upon reaching age 60 with five years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest 5 years’ salary out of the last 15 years) multiplied by the number of years of service.

Total contributions to the STRS for the years ended June 30, 2004, 2003 and 2002 were \$169,608, \$166,867 and \$159,989, respectively, which consisted of \$119,699, \$117,762 and \$112,890, from the University in 2004, 2003 and 2002, respectively, and \$49,909, \$49,105 and \$47,099 from the covered employees in 2004, 2003 and 2002, 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, WV 25305.

The TIAA-CREF is a defined contribution benefit plan in which benefits are based solely upon amounts contributed plus investment earnings. Employees who elect to participate in this plan are required to make a contribution equal to 6% of total annual compensation. 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, 2004, 2003 and 2002, were \$1,650,541, \$1,596,929 and \$1,510,701, respectively, which consisted of equal contributions from the University and covered employees in 2004, 2003 and 2002 of \$825,271, \$798,465 and \$755,351, respectively.

The University's total payroll for the years ended June 30, 2004 and 2003 was \$17,438,507 and \$17,200,179, respectively, and total covered employees' salaries in the STRS and TIAA-CREF were \$865,626 and \$13,754,512 in 2004, and \$851,759 and \$13,308,367 in 2003, respectively.

## **11. FOUNDATION**

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 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, 2004 and 2003, the Foundation's net assets (including unrealized gains) totaled \$16,227,816 and \$14,334,887, respectively. Complete financial statements for the Foundation can be obtained from The Shepherd University Foundation, Incorporated, P.O. Box 3210, Shepherdstown, WV 25443-3210.

During the years ended June 30, 2004 and 2003, the Foundation contributed \$317,627 and \$646,956, respectively, to the University for scholarships and awards. The Foundation contributed \$500,000 to the University for the Construction of the Kenneth G Boone Fieldhouse in 2003.

During 2003, the University received \$3,000,000 from the Department of Housing and Urban Development for the Robert C. Byrd Center for Legislative Studies (the “Center”). These funds were

transferred to the Foundation and will be expended for the operations of the Center pursuant to a contract with the Congressional Education Foundation (see Note 16).

## **12. 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.

## **13. COMMITMENTS AND 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.

## **14. SEGMENT INFORMATION**

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

|   | <u>Student Fee<br/>Revenue Bonds</u> | <u>Student Fee<br/>Revenue Bonds</u> |
|---|--------------------------------------|--------------------------------------|
| <b>Condensed Statement of Net Assets as of June 30,</b> | <b>2004</b>                          | <b>2003</b>                          |
| <b>ASSETS:</b>  |                                      |                                      |
| Current asset   | \$ 283,282                           | \$ 337,537                           |
| Noncurrent assets                                       | <u>5,913,937</u>                     | <u>6,101,757</u>                     |
| Total assets  | <u>\$ 6,197,219</u>                  | <u>\$ 6,439,294</u>                  |
| <b>LIABILITIES:</b>                                     |                                      |                                      |
| Current liabilities                                     | \$ 290,024                           | \$ 560,149                           |
| Noncurrent liabilities                                  | <u>5,885,000</u>                     | <u>5,990,000</u>                     |
| Total liabilities                                       | <u>6,175,024</u>                     | <u>6,550,149</u>                     |
| <b>NET ASSETS (DEFICIT):</b>                            |                                      |                                      |
| Invested in capital assets—net of related debt          | (1,516,980)                          | (4,185,184)                          |
| Restricted:   |                                      |                                      |
| Debt service  | 655,863                              | 664,774                              |
| Capital projects  | 600,030                              | 3,409,555                            |
| Unrestricted  | <u>283,282</u>                       | <u>                    </u>          |
|   | <u>22,195</u>                        | <u>(110,855)</u>                     |
| <b>Total net assets (deficit) and liabilities</b>       | <u>\$ 6,197,219</u>                  | <u>\$ 6,439,294</u>                  |

| <b>Condensed Statement of Revenues, Expenses and<br/>Changes in Net Assets as of June 30,</b> | <b>Student Fee<br/>Revenue Bonds</b> | <b>Student Fee<br/>Revenue Bonds</b> |
|---|--------------------------------------|--------------------------------------|
|   | <b>2004</b>                          | <b>2003</b>                          |
| OPERATING:  |                                      |                                      |
| Operating revenues  | \$ 478,143                           | \$ -                                 |
| Operating expenses  | <u>(103,118)</u>                     | <u>(7,996)</u>                       |
| Net operating income  | 375,025                              | (7,996)                              |
| NONOPERATING:   |                                      |                                      |
| Nonoperating revenues   | 42,732                               | 39,495                               |
| Nonoperating expenses   | <u>(284,707)</u>                     | <u>(142,354)</u>                     |
| CHANGES IN NET ASSETS   | 133,050                              | (110,855)                            |
| NET ASSETS—Beginning of year  | <u>(110,855)</u>                     | <u>                    </u>          |
| NET ASSETS—End of year  | <u>\$ 22,195</u>                     | <u>\$ (110,855)</u>                  |
| <b>Condensed Statement of Cash Flows</b>  |                                      |                                      |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES   | \$ 375,025                           | \$ (7,996)                           |
| NET CASH (USED IN) PROVIDED BY CAPITAL<br>AND RELATED FINANCING                               | (4,431,767)                          | 4,265,442                            |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES   | <u>4,339,673</u>                     | <u>(4,257,446)</u>                   |
| INCREASE IN CASH AND CASH EQUIVALENTS   | 282,931                              | -                                    |
| CASH AND CASH EQUIVALENTS—Beginning of year   | <u>                    </u>          | <u>                    </u>          |
| CASH AND CASH EQUIVALENTS—End of year   | <u>\$ 282,931</u>                    | <u>\$ -</u>                          |

## 15. SUBSEQUENT EVENTS

In August 2004, the Commission issued \$167,260,000 of 2004 Series B Revenue Bonds (Higher Education Facilities). The University has been approved for \$12,500,000 of the bond proceeds for capital projects from this bond issuance.

In September 2004, the University issued University Facilities Revenue Notes Series 2004A and Infrastructure Revenue Bonds Series 2004B amounting to \$3,405,000 and \$1,865,000, respectively. The proceeds of the notes and bonds will be used to finance residence hall renovations and certain infrastructure projects.

## 16. 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 of West Virginia 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 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 accounting principles generally accepted in the United States of America. 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 generally accepted accounting principles (“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 statement 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 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                 | 5            |
| 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 statement 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.

**Statement of Cash Flows**—For purposes of presenting cash flow information, the Foundation has defined cash equivalents as highly liquid debt instruments with original maturities of three months or less.

## 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, 2007.

Pledges receivable as of June 30, 2004 and 2003 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.

|                                  | 2004            | 2003              |
|----------------------------------|-----------------|-------------------|
| Receivable in less than one year | \$ 3,705        | \$ 193,615        |
| Receivable in one to five years  | <u>1,125</u>    | <u>4,160</u>      |
| Total pledges receivable         | <u>\$ 4,830</u> | <u>\$ 197,775</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, 2004 and 2003 are composed of the following:

| Description                    | Cost                 | Market               |
|--------------------------------|----------------------|----------------------|
| <b>2004:</b>                   |                      |                      |
| Cash and temporary investments | \$ 1,450,000         | \$ 1,456,088         |
| U.S. Government securities     | 10,502,924           | 10,699,243           |
| Corporate bonds and notes      | 789,290              | 785,897              |
| Common stocks                  | <u>3,061,445</u>     | <u>3,507,707</u>     |
| Investment securities          | <u>\$ 15,803,659</u> | <u>\$ 16,448,935</u> |
| <b>2003:</b>                   |                      |                      |
| Cash and temporary investments | \$ 1,510,000         | \$ 1,517,274         |
| U.S. Government securities     | 10,784,038           | 11,440,127           |
| Corporate bonds and notes      | 1,077,071            | 1,121,108            |
| Common stocks                  | <u>2,426,476</u>     | <u>2,575,132</u>     |
| Investment securities          | <u>\$ 15,797,585</u> | <u>\$ 16,653,641</u> |

The investment in real estate is comprised of the following:

| Description  | Cost                | Accumulated<br>Depreciation | Net<br>Book Value   |
|--------------|---------------------|-----------------------------|---------------------|
| <b>2004:</b> |                     |                             |                     |
| Land         | \$ 1,487,167        | \$ -                        | \$ 1,487,167        |
| Building     | <u>160,202</u>      | <u>35,378</u>               | <u>124,824</u>      |
|              | <u>\$ 1,647,369</u> | <u>\$ 35,378</u>            | <u>\$ 1,611,991</u> |
| <b>2003:</b> |                     |                             |                     |
| Land         | \$ 40,000           | \$ -                        | \$ 40,000           |
| Building     | <u>160,202</u>      | <u>31,373</u>               | <u>128,829</u>      |
|              | <u>\$ 200,202</u>   | <u>\$ 31,373</u>            | <u>\$ 168,829</u>   |

The following is a summary of the Foundation's investments at June 30, 2004 and 2003:

| Description           | Cost                 | Market               |
|-----------------------|----------------------|----------------------|
| <b>2004:</b>          |                      |                      |
| Investment securities | \$ 15,803,659        | \$ 16,448,935        |
| Real estate           | <u>1,611,991</u>     | <u>1,611,991</u>     |
|                       | <u>\$ 17,415,650</u> | <u>\$ 18,060,926</u> |
| <b>2003:</b>          |                      |                      |
| Investment securities | \$ 15,797,585        | \$ 16,653,641        |
| Real estate           | <u>168,829</u>       | <u>168,829</u>       |
|                       | <u>\$ 15,966,414</u> | <u>\$ 16,822,470</u> |

#### D. EQUIPMENT

Equipment consists of the following:

|                            | 2004            | 2003            |
|----------------------------|-----------------|-----------------|
| Office equipment (at cost) | \$ 5,199        | \$ 4,694        |
| Accumulated depreciation   | <u>(2,246)</u>  | <u>(1,387)</u>  |
| Net book value             | <u>\$ 2,953</u> | <u>\$ 3,307</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, 2004 and 2003 are as follows:

|  | <b>2004</b>         | <b>2003</b>         |
|--|---------------------|---------------------|
| Custodial receipts                               | \$ 107,503          | \$ 3,482,538        |
| Custodial payments                               | (256,141)           | (679,736)           |
| Interest and gains on investments                | <u>(32,874)</u>     | <u>91,578</u>       |
| Net increase (decrease) in custodial liabilities | <u>\$ (181,512)</u> | <u>\$ 2,894,380</u> |

#### **F. GIFT ANNUITIES**

Gift annuities payable consist of the following liabilities:

|  | <b>2004</b>       | <b>2003</b>       |
|--|-------------------|-------------------|
| Daniel and Orpha Cowgill Annuity       | \$ 46,418         | \$ 47,452         |
| James K. Wright, Jr. Annuity           | 49,019            | 50,633            |
| M. Louise Shimp Annuity                | 15,741            | 19,291            |
| Benjamin and Mary Lou Mehrling Annuity | 5,916             | 6,062             |
| James K. and Gladys L. Wright Annuity  | <u>20,468</u>     | <u>          </u> |
| Total                                  | <u>\$ 137,562</u> | <u>\$ 123,438</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, 2004 and 2003 was \$3,455 and \$3,123, respectively.

#### **H. NET ASSET TRANSFER**

During 2003, the Board of Directors of the Foundation approved a transfer of \$235,000 from the General Scholarship account included in the Permanently Restricted Net Assets to the Unrestricted Net Assets. The transfer allows the Foundation to cover unfunded current and prior year operating expenses. The expenditures were unfunded due to the decline in the investment value and decline in interest earned on their investments. During 2004, the Board of Directors approved the transfer of \$235,000 back to the General Scholarship account.

**I. 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.

**J. 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 2004 and 2003, 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.

**K. SUBSEQUENT EVENTS**

The Foundation has entered into a contract in the amount of \$2,300,000 to sell the real estate that they received as a beneficiary of an estate. The settlement on the contract is scheduled subsequent to June 30, 2004 and the proceeds from the sale of the real estate will be added to the permanently restricted net assets in accordance with the will of the donor.

## 17. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2004 and 2003, the following table represents operating expenses within both natural and functional classifications:

|                                     | 2004                 |                     |                             |                     |                              |                     |                                 |                      |
|-------------------------------------|----------------------|---------------------|-----------------------------|---------------------|------------------------------|---------------------|---------------------------------|----------------------|
|                                     | Salaries and Wages   | Benefits            | Supplies and Other Services | Utilities           | Scholarships and Fellowships | Depreciation        | Fees Assessed by the Commission | Total                |
| Instruction                         | \$ 8,510,813         | \$ 1,676,716        | \$ 969,183                  | \$ 245              | \$ 39,539                    | \$ -                | \$ -                            | \$ 11,196,496        |
| Public service                      | 171,476              | 25,141              | 118,845                     | 308                 | 1,650                        |                     |                                 | 317,420              |
| Academic support                    | 1,852,078            | 414,338             | 777,854                     | 1,481               |                              |                     |                                 | 3,045,751            |
| Student services                    | 1,641,787            | 345,458             | 899,886                     | 439                 |                              |                     |                                 | 2,887,570            |
| General institutional support       | 1,673,881            | 514,411             | 1,145,968                   | 632                 |                              |                     |                                 | 3,334,892            |
| Operations and maintenance of plant | 748,195              | 223,870             | 1,137,283                   | 851,936             |                              |                     |                                 | 2,961,284            |
| Student financial aid               |                      |                     |                             |                     | 2,107,985                    |                     |                                 | 2,107,985            |
| Auxiliary enterprises               | 2,840,277            | 681,934             | 5,252,127                   | 531,850             | 9,450                        |                     |                                 | 9,315,638            |
| Depreciation                        |                      |                     |                             |                     |                              | 3,585,419           |                                 | 3,585,419            |
| Other                               |                      |                     |                             |                     |                              |                     | 190,212                         | 190,212              |
| <b>Total</b>                        | <b>\$ 17,438,507</b> | <b>\$ 3,881,868</b> | <b>\$ 10,301,146</b>        | <b>\$ 1,386,891</b> | <b>\$ 2,158,624</b>          | <b>\$ 3,585,419</b> | <b>\$ 190,212</b>               | <b>\$ 38,942,667</b> |

|                                     | 2003                |                     |                             |                     |                              |                     |                                 |                      |
|-------------------------------------|---------------------|---------------------|-----------------------------|---------------------|------------------------------|---------------------|---------------------------------|----------------------|
|                                     | Salaries and Wages  | Benefits            | Supplies and Other Services | Utilities           | Scholarships and Fellowships | Depreciation        | Fees Assessed by the Commission | Total                |
| Instruction                         | \$ 8,308,735        | \$ 1,509,217        | \$ 1,025,852                | \$ 57               | \$ 26,734                    | \$ -                | \$ -                            | \$ 10,870,595        |
| Public service                      | 210,409             | 31,290              | 107,946                     |                     | 2,100                        |                     |                                 | 351,745              |
| Academic support                    | 1,941,530           | 346,534             | 656,664                     | 554                 |                              |                     |                                 | 2,945,282            |
| Student services                    | 1,687,468           | 314,730             | 915,335                     | 716                 |                              |                     |                                 | 2,918,249            |
| General institutional support       | 1,516,731           | 516,133             | 1,124,612                   | 3,422               |                              |                     |                                 | 3,160,898            |
| Operations and maintenance of plant | 713,914             | 166,598             | 1,257,712                   | 827,901             |                              |                     |                                 | 2,966,125            |
| Student financial aid               |                     |                     | 1,676                       |                     | 1,825,088                    |                     |                                 | 1,826,764            |
| Auxiliary enterprises               | 2,821,392           | 543,987             | 4,466,781                   | 616,005             | 15,730                       |                     |                                 | 8,463,895            |
| Depreciation                        |                     |                     |                             |                     |                              | 2,894,376           |                                 | 2,894,376            |
| Other                               |                     |                     | 5,717                       |                     |                              |                     | 179,212                         | 184,929              |
| <b>Total</b>                        | <b>\$17,200,179</b> | <b>\$ 3,428,489</b> | <b>\$ 9,562,295</b>         | <b>\$ 1,448,655</b> | <b>\$ 1,869,652</b>          | <b>\$ 2,894,376</b> | <b>\$ 179,212</b>               | <b>\$ 36,582,858</b> |

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## **SUPPLEMENTAL SCHEDULES**

**SHEPHERD UNIVERSITY  
(Formerly Shepherd College)**

**SUPPLEMENTARY COMPONENT FINANCIAL DATA  
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS INFORMATION  
YEAR ENDED JUNE 30, 2004**

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|  | <b>Community<br/>&amp; Technical<br/>College</b> | <b>Four-Year<br/>&amp; Other<br/>Components</b> | <b>Combined<br/>Institution</b> |
|--|--|---|---------------------------------|
| <b>OPERATING REVENUES:</b>   |  |   |                                 |
| Student tuition and fees (net of scholarship allowance of \$294,946 and \$2,987,281 and \$3,282,227) | \$ 1,231,589                                     | \$ 10,858,326                                   | \$ 12,089,915                   |
| Contracts and grants:  |  |   |                                 |
| Federal  | 538,493  | 2,630,451                                       | 3,168,944                       |
| State  | 525,298  | 1,448,234                                       | 1,973,532                       |
| Private  | 121,046  | 503,269   | 624,315                         |
| Interest on student loans receivable   |  | 23,548  | 23,548                          |
| Sales and services of educational activities   | 1,483  | 34,127  | 35,610                          |
| Auxillary enterprise revenue (net of scholarship allowance of \$49,299)                              |  | 8,944,331                                       | 8,944,331                       |
| Other operating revenues   | <u>232,856</u>                                   | <u>686,118</u>                                  | <u>918,974</u>                  |
| Total operating revenues   | <u>2,650,765</u>                                 | <u>25,128,404</u>                               | <u>27,779,169</u>               |
| <b>OPERATING EXPENSES:</b>   |  |   |                                 |
| Salaries and wages   | 2,780,086  | 14,658,421                                      | 17,438,507                      |
| Benefits   | 569,224  | 3,312,644                                       | 3,881,868                       |
| Supplies and other services  | 860,964  | 9,440,182                                       | 10,301,146                      |
| Utilities  | 67,941   | 1,318,950                                       | 1,386,891                       |
| Student and other services   | 394,061  | 1,764,563                                       | 2,158,624                       |
| Depreciation   | 386,715  | 3,198,704                                       | 3,585,419                       |
| Fees assessed by the Commission for operations   | <u>27,671</u>                                    | <u>162,541</u>                                  | <u>190,212</u>                  |
| Total operating expenses   | <u>5,086,662</u>                                 | <u>33,856,005</u>                               | <u>38,942,667</u>               |
| <b>OPERATING LOSS</b>  | <u>(2,435,897)</u>                               | <u>(8,727,601)</u>                              | <u>(11,163,498)</u>             |

(Continued)

**SHEPHERD UNIVERSITY**  
**(Formerly Shepherd College)**

**SUPPLEMENTARY COMPONENT FINANCIAL DATA**  
**SCHEDULE OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS INFORMATION**  
**YEAR ENDED JUNE 30, 2004**

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|  | <b>Community<br/>&amp; Technical<br/>College</b> | <b>Four-Year<br/>&amp; Other<br/>Components</b> | <b>Combined<br/>Institution</b> |
|--|--|---|---------------------------------|
| NONOPERATING REVENUES (EXPENSES):                        |  |   |                                 |
| State appropriations                                     | \$2,132,732                                      | \$ 8,875,699                                    | \$ 11,008,431                   |
| Federal grants   |  |   |                                 |
| Center for Legislative Studies expenditure               |  |   |                                 |
| Investment income  | 9,126  | 155,522   | 164,648                         |
| Interest on indebtedness                                 | (22,451)   | (262,722)                                       | (285,173)                       |
| Fees assessed by the Commission                          | (52,770)   | (207,259)                                       | (260,029)                       |
| Loss on disposal of equipment                            |  | (45,797)  | (45,797)                        |
|  | <u>2,066,637</u>                                 | <u>8,515,443</u>                                | <u>10,582,080</u>               |
| Net nonoperating revenues                                |  |   |                                 |
| LOSS BEFORE OTHER REVENUES,<br>EXPENSES, GAINS OR LOSSES | (369,260)  | (212,158)                                       | (581,418)                       |
| CAPITAL GRANTS AND GIFTS                                 |  | <u>1,489,259</u>                                | <u>1,489,259</u>                |
| INCREASE (DECREASE) IN NET ASSETS<br>BEFORE TRANSFERS    | (369,260)  | 1,277,101                                       | 907,841                         |
| TRANSFER OF LIABILITY FROM THE<br>COMMISSION             |  | <u>(90,359)</u>                                 | <u>(90,359)</u>                 |
| INCREASE (DECREASE) IN NET ASSETS                        | <u>\$ (369,260)</u>                              | <u>\$ 1,186,742</u>                             | <u>\$ 817,482</u>               |

(Concluded)

**SHEPHERD UNIVERSITY**  
**(Formerly Shepherd College)**

**SUPPLEMENTARY COMPONENT FINANCIAL DATA**  
**NATURAL CLASSIFICATIONS WITHIN FUNCTIONAL CLASSIFICATIONS INFORMATION**  
**FOR THE YEAR ENDED JUNE 30, 2004**

|                                     | <b>Community &amp; Technical College</b> |                          |  |                         |   |                          |  |                           |
|-------------------------------------|--|--------------------------|--|-------------------------|---|--------------------------|--|---------------------------|
|                                     | <b>Salaries<br/>and<br/>Wages</b>        | <b>Benefits</b>          | <b>Supplies and<br/>Other<br/>Services</b> | <b>Utilities</b>        | <b>Scholarships<br/>and<br/>Fellowships</b> | <b>Depreciation</b>      | <b>Fees<br/>Assessed<br/>by the<br/>Commission</b> | <b>Total</b>              |
| Instruction                         | \$ 1,550,995                             | \$ 269,598               | \$ 234,680                                 | \$ 24                   | \$ 2,773                                    | \$ -                     | \$ -   | \$2,058,070               |
| Public service                      | 44,282                                   | 10,682                   | 23,465                                     | 24                      | 130   |                          |  | 78,583                    |
| Academic support                    | 763,006                                  | 191,738                  | 249,579                                    | 644                     |   |                          |  | 1,204,967                 |
| Student services                    | 159,664                                  | 34,964                   | 82,757                                     | 51                      |   |                          |  | 277,436                   |
| General institutional support       | 203,160                                  | 44,026                   | 181,030                                    | 42                      |   |                          |  | 428,258                   |
| Operations and maintenance of plant | 58,979                                   | 18,216                   | 89,453                                     | 67,156                  |   |                          |  | 233,804                   |
| Student financial aid               |  |                          |  |                         | 391,158                                     |                          |  | 391,158                   |
| Auxiliary enterprises               |  |                          |  |                         |   |                          |  |                           |
| Depreciation                        |  |                          |  |                         |   | 386,715                  |  | 386,715                   |
| Other                               |  |                          |  |                         |   |                          | 27,671   | 27,671                    |
| <b>Total</b>                        | <b><u>\$ 2,780,086</u></b>               | <b><u>\$ 569,224</u></b> | <b><u>\$ 860,964</u></b>                   | <b><u>\$ 67,941</u></b> | <b><u>\$ 394,061</u></b>                    | <b><u>\$ 386,715</u></b> | <b><u>\$ 27,671</u></b>                            | <b><u>\$5,086,662</u></b> |

**SHEPHERD UNIVERSITY**  
(Formerly Shepherd College)

**SUPPLEMENTARY COMPONENT FINANCIAL DATA**  
**NATURAL CLASSIFICATIONS WITHIN FUNCTIONAL CLASSIFICATIONS INFORMATION**  
**FOR THE YEAR ENDED JUNE 30, 2004**

|                                     | <b>Four Year and Other Components</b> |                     |  |                     |   |                     |  |                      |
|-------------------------------------|---------------------------------------|---------------------|--|---------------------|---|---------------------|--|----------------------|
|                                     | <b>Salaries<br/>and<br/>Wages</b>     | <b>Benefits</b>     | <b>Supplies and<br/>Other<br/>Services</b> | <b>Utilities</b>    | <b>Scholarships<br/>and<br/>Fellowships</b> | <b>Depreciation</b> | <b>Fees<br/>Assessed<br/>by the<br/>Commission</b> | <b>Total</b>         |
| Instruction                         | \$ 6,959,728                          | \$ 1,407,118        | \$ 734,592                                 | \$ 222              | \$ 36,766                                   | \$ -                | \$ -   | \$ 9,138,426         |
| Public service                      | 127,194                               | 14,459              | 95,380                                     | 284                 | 1,520                                       |                     |  | 238,837              |
| Academic support                    | 1,089,072                             | 222,600             | 528,275                                    | 836                 |   |                     |  | 1,840,783            |
| Student services                    | 1,482,122                             | 310,494             | 817,129                                    | 389                 |   |                     |  | 2,610,134            |
| General institutional support       | 1,470,812                             | 470,385             | 964,849                                    | 590                 |   |                     |  | 2,906,636            |
| Operations and maintenance of plant | 689,216                               | 205,654             | 1,047,830                                  | 784,779             |   |                     |  | 2,727,479            |
| Student financial aid               |                                       |                     |  |                     | 1,716,827                                   |                     |  | 1,716,827            |
| Auxiliary enterprises               | 2,840,277                             | 681,934             | 5,252,127                                  | 531,850             | 9,450                                       |                     |  | 9,315,638            |
| Depreciation                        |                                       |                     |  |                     |   | 3,198,704           |  | 3,198,704            |
| Other                               |                                       |                     |  |                     |   |                     | 162,541  | 162,541              |
| <b>Total</b>                        | <b>\$ 14,658,421</b>                  | <b>\$ 3,312,644</b> | <b>\$ 9,440,182</b>                        | <b>\$ 1,318,950</b> | <b>\$ 1,764,563</b>                         | <b>\$ 3,198,704</b> | <b>\$ 162,541</b>                                  | <b>\$ 33,856,005</b> |

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

Governing Board  
Shepherd University

We have audited the financial statements of Shepherd University (formerly Shephard College) (the "University") as of and for the years ended June 30, 2004 and 2003, and have issued our report thereon dated October 8, 2004, which contains a consistency paragraph for the adoption of Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units* and states reliance on other auditors for the discretely presented component unit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

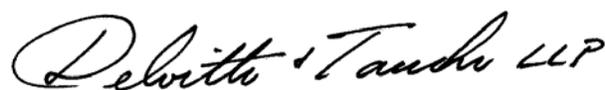
### **Internal Control Over Financial Reporting**

In planning and performing our audit, 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 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.

### **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 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 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, management of the University, 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 8, 2004