

Shepherd University

*Financial Statements as of and for the
Years Ended June 30, 2005 and 2004,
Additional Information for the
Year Ended June 30, 2005, and
Independent Auditors' Reports*

SHEPHERD UNIVERSITY

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1–2
MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")	3–9
BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2005 AND 2004:	
Statements of Net Assets	10–11
Component Unit—Statements of Net Assets	12
Statements of Revenues, Expenses, and Changes in Net Assets	13–14
Component Unit—Statements of Activities	15–16
Statements of Cash Flows	17–18
Notes to Financial Statements	19–47
ADDITIONAL INFORMATION—SUPPLEMENTARY COMPONENT FINANCIAL DATA FOR THE YEAR ENDED JUNE 30, 2005:	48
Schedule of Net Asset Information	49
Schedule of Revenues and Expenses and Changes in Net Assets Information	50–51
Schedule of Cash Flow Information	52–53
Natural Classifications within Functional Classifications Information	54–55
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	56

INDEPENDENT AUDITORS' REPORT

To the Governing Board of
Shepherd University:

We have audited the statements of net assets of Shepherd University (the "University") as of June 30, 2005 and 2004, and the related statements of revenues, expenses, and changes in net assets, and of cash flows for the years then ended. These financial statements are the responsibility of the management of the University. Our responsibility is to express an opinion on the respective financial statements based on our audits. We did not audit the financial statements of The Shepherd University Foundation, Incorporated (the "Foundation"), a discretely presented component unit of the University. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the discretely presented financial statements of the Foundation, is based solely on the report of such other auditors.

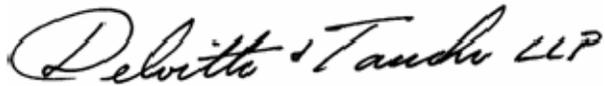
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The Foundation's financial statements, which were audited by other auditors, were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis of designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position and changes in net assets of the University and the discretely presented component unit of the University as of June 30, 2005 and 2004, and the cash flows of the University for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

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 49 to 55 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 14, 2005, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script that reads "Deloitte & Touche LLP".

October 14, 2005

Shepherd University
Management Discussion and Analysis
Fiscal Years 2005 and 2004

About Shepherd University

Shepherd University (the “University”) is a state-supported institution within the West Virginia system of Higher Education Policy. The baccalaureate component of the institution was governed by the West Virginia Higher Education Policy Commission in fiscal years 2005 and 2004. The community and technical college component was governed by the West Virginia Council for Community and Technical Education in fiscal years 2005 and 2004. The University was founded in 1871. It offers bachelor of arts, bachelor of fine arts, and bachelor of science degrees in a wide range of fields, encompassing the liberal arts, business administration, teacher education, the social and natural sciences, and other career oriented areas. The Master of Arts in Teaching and Master of Arts in Curriculum and Instruction are also offered. The Community and Technical College of Shepherd offers associate degrees, workforce development programs, and collaborative programs in government, business and industry sectors. The Community College achieved separate accreditation during fiscal year 2005, and became a completely separate entity for financial reporting purposes on July 1, 2005.

Overview of the Financial Statements and Financial Analysis

This discussion will emphasize significant changes reflected in the fiscal year 2005 data compared to the financial statements presented for fiscal year 2004. There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. This discussion and analysis of the University’s financial statements provides an overview of its financial activities for the year and is 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, 2005, and 2004. The Statement of Net Assets is a point-of-time financial statement. The Statement of Net Assets presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities). The difference between current and noncurrent assets and liabilities will be discussed in the footnotes to the financial statements.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors, 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 debt, provides the institution’s equity in property, plant, and equipment owned by the institution. The second asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. Shepherd 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)

	June 30		
	2005	2004	2003
Assets:			
Cash	\$ 12,465	\$ 9,652	\$ 7,094
Other Current Assets	2,145	1,131	1,639
Noncurrent Assets	84,140	56,412	58,511
Total Assets	<u>\$ 98,750</u>	<u>\$ 67,195</u>	<u>\$ 67,244</u>
Liabilities:			
Current Liabilities	\$ 6,160	\$ 5,137	\$ 5,178
Noncurrent Liabilities	37,559	11,231	12,057
Total Liabilities	<u>\$ 43,719</u>	<u>\$ 16,368</u>	<u>\$ 17,235</u>
 Net Assets	 <u>\$ 55,031</u>	 <u>\$ 50,827</u>	 <u>\$ 50,009</u>

Assets:

- Current cash and cash equivalents increased by \$2.8 million in fiscal year 2005. Cash in the auxiliary fund increased \$1.2 million. The University delayed several major residence hall renovations to rebuild auxiliary cash reserves depleted by the fiscal year 2004 asbestos abatement project. Capital fund reserves increased by about \$378,000 because several major renovation projects were not started until the final quarter. The rest of the increase is attributable to the cash flows from operating activities, less the operating revenues used to purchase capital assets.
- The amount due from the Commission increased by approximately \$961,000. The University recorded a \$350,000 appropriation in the final quarter. The University was owed for \$395,000 that was expended for a capital project funded by the 2004 Higher Education Policy Commission Bonds.
- Restricted cash and cash equivalents increased by \$3.2 million. The University issued bonds in September 2004 and May 2005 which increased our restricted cash by approximately \$3.8 million partly offset by about \$642,000 which was expended as work progressed on the projects funded by the bond issue.
- Investments increased by approximately \$19.9 million. Proceeds from the May 2005 bond issues were invested in a repurchase agreement.
- Capital assets increased by approximately \$4.1 million. Approximately \$5.9 million was expended for construction projects and approximately \$1.7 million was expended for equipment and library books, offset by approximately \$3.4 million for fiscal year 2005.

Liabilities:

- Accounts payable increased by approximately \$755,000. Accounts payable related to capital projects increased by approximately \$374,000 due to increase in construction activities during the 2005 summer compared with the 2004 summer. In addition, accounts payable to suppliers increased by approximately \$304,000 due to increase in purchases via the purchase cards.

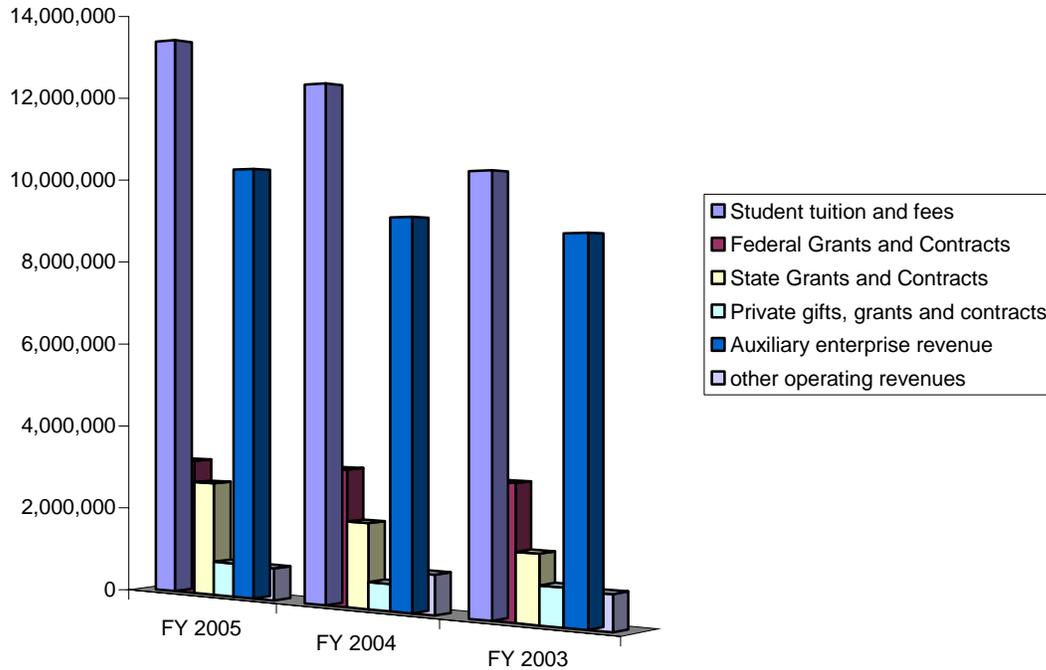
- Accrued liabilities increased by approximately \$162,000 due to increase in interest expense related to bond indebtedness.
- Deferred revenue decreased by approximately \$92,000. Deferred revenues related to grants declined due to the decrease in the amount of cash received in advance for grant expenditures.
- The compensated absences liability increased by approximately \$110,000. Fringe benefits were included in the liability calculation for fiscal year 2005 causing an increase of approximately \$70,000. The balance of the increase was due to the increase in the liability related to the annual leave. Liability on the annual leave increased because several staff positions have been changed from classified to non-classified. All employees who are non-classified staff receive 24 days of annual leave each year. New employees who are classified staff receive 15 days of annual leave per year. The amount of the annual leave liability also increases as the employees' pay rates increase.

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.

In general, 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.

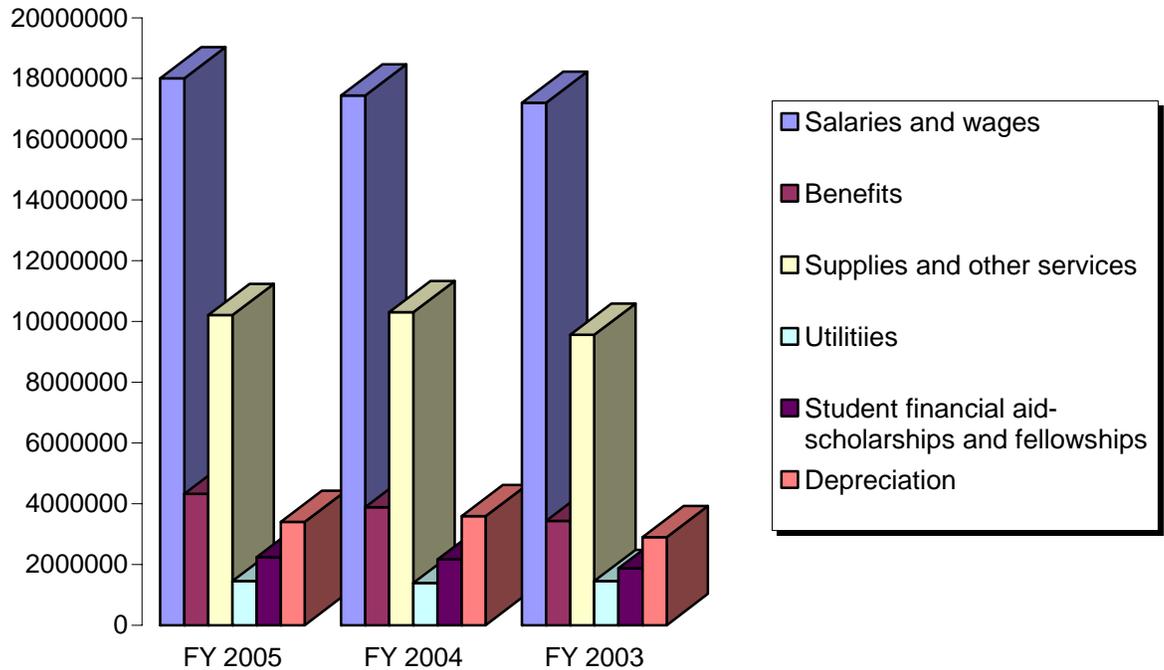
Operating Revenues



Operating Revenues:

- Gross student tuition and fees increased by \$2 million for a 13% overall increase. This is attributed to a combination of factors including an 11.7% increase in non-auxiliary tuition and fees rates for undergraduate resident students and a 15% increase for nonresident students. The number of full-time equivalent (FTE) enrollment resident students who paid tuition increased 2.4%.
- State grants and contracts increased approximately \$702,000. Promise Scholarship and HEAPS scholarships increased from fiscal year 2004.
- Private grants and contracts increased approximately \$167,000. Private Scholarships increased \$64,000. The rest of the increase was attributable to increases in departmental grants.
- Gross sales and services of auxiliary enterprises increased by \$1.2 million for a 13.7% increase in fiscal year 2005 over fiscal year 2004. The charges for room rent increased 9% over fiscal year 2003, and the charges for the meal plan increased 7%. During March 2004, 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 approximately \$951,000, including approximately \$180,000 in lost revenues in fiscal year 2004. Bookstore revenues increased approximately \$171,000 and athletic fee revenues increased approximately \$159,000 in fiscal year 2005.
- Other revenues decreased by approximately \$163,000, or 18%. The University received a large portion of the additional revenues related to the exclusive beverage contract entered into during fiscal year 2004.

Operating Expenses



Operating Expenses:

- Salaries and wages increased by approximately \$568,000 or 3.3 %. The increase is attributable to salary increases processed in November and the addition of several new positions.
- The total cost of benefits increased by approximately \$438,000 or approximately 11% for fiscal year 2005 over fiscal year 2004. The compensated absences liability increased by approximately \$110,000 in fiscal year 2005 and decreased by approximately \$119,000 in fiscal year 2004. Social Security and pension benefits increased in proportion to the salary increases. Health insurance costs increased by approximately \$33,000.

Nonoperating Revenues (Expenses)

- Nonoperating revenues from State appropriations increased by approximately \$542,000 or 4.9%. As the University received a supplemental appropriation of \$550,000 in the final quarter of fiscal year 2005, otherwise, the State appropriation would have decreased by approximately \$8,000.
- Interest on indebtedness decreased \$54,000. Interest totaling \$125,000 that was paid on and earned from debt proceeds was capitalized in fiscal year 2005. The capitalized interest reduced the interest expense. This decrease was offset by interest expenses related to the two new bond issues.

- Investment income increased by \$168,711. The University participates in the investment pool managed by the State of West Virginia. The increase in interest revenue coincides with the increase in cash and restricted cash.

Statement of Cash Flows

The final statement presented by the University is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the University during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the 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.

Cash Flows (In thousands of dollars)

	June 30		
	2005	2004	2003
Cash provided (used) by:			
Operating activities	\$ (6,175)	\$ (6,834)	\$ (9,147)
Noncapital financing activities	11,550	11,103	13,029
Capital and related financing activities	16,960	(6,174)	727
Investing activities	<u>(19,522)</u>	<u>4,463</u>	<u>(3,862)</u>
Net change in cash	2,813	2,558	747
 Cash, beginning of year	 <u>9,652</u>	 <u>7,094</u>	 <u>6,347</u>
Cash, end of year	<u>\$ 12,465</u>	<u>\$ 9,652</u>	<u>\$ 7,094</u>

Capital Assets

The following construction projects were completed in fiscal year 2004:

Shaw and Thacher Hall Renovations	\$ 1,609,819
West Campus Parking Lot	1,173,392
Ikenberry Hall Renovations	122,434

The University was approved for \$12.5 million allocation from the 2004 Higher Education Policy Commission debt issuance to construct additional instructional space, of which \$877,000 was earned in fiscal year 2005. In addition, \$10 million was received from the U.S. Department of Health and Human Services to construct academic space for the Nursing program.

The following construction projects were completed in fiscal year 2004:

Library Renovation	\$ 3,282,000
Frank Arts Center	2,184,000
Athletics Facilities Building	1,612,000

Capital Debt

In September 2004, \$3,405,000 of Infrastructure Revenue Bonds, Series 2004 (the “Infrastructure Bonds”) were sold. The Infrastructure Bonds were issued to finance the costs of planning, design, acquisition, construction and equipping of certain capital improvements for Shepherd University, including certain roads, water and sewer system expansion, extensions and improvements and other infrastructure projects on the West Campus of the University and other capital renovations and improvements to the University’s campus, and to pay the costs of issuance of the Infrastructure Bonds and related costs. The Infrastructure Bonds are special obligations of the Board and are secured by and payable from fees assessed to students of the University held under the Indenture.

Also in September, 2004 the University issued \$1,865,000 University Facilities Revenue Notes, Series 2004A, which were issued to temporarily finance a portion of the costs of planning design, acquisition, construction and equipping of certain renovations and improvements to Shaw Hall and Thacher Hall and other capital renovations and improvements to the University’s residence facilities pending issuance of the Series 2005 Residence Facility Bonds.

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

Economic Outlook

The University did not experience a reduction in total State appropriations during fiscal year 2005 nor does it anticipate a reduction for fiscal year 2006. The economy in West Virginia is growing. Increases in the global demand for energy are having a positive impact on coal production and pricing. These increases have generated additional tax revenues for the State. Although the number of high school graduates in the State continues to decline, the University is well positioned in the eastern region of the State to attract students and increase enrollments. The improved physical plant and favorable comparison of fee structures with peer institutions indicate that the University will remain competitive for new and returning students.

SHEPHERD UNIVERSITY

STATEMENTS OF NET ASSETS AS OF JUNE 30, 2005 AND 2004

	2005	2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 12,464,854	\$ 9,651,536
Due from the Commission	977,681	16,257
Amount due from the State	12,250	13,175
Accounts receivable—net	498,568	509,112
Loans to students—current portion	179,505	184,492
Prepaid expenses	19,560	26,619
Inventories	<u>457,336</u>	<u>381,024</u>
Total current assets	<u>14,609,754</u>	<u>10,782,215</u>
NONCURRENT ASSETS:		
Cash and cash equivalents	4,482,423	1,284,864
Investments	19,863,267	
Loans to students, net of allowance of \$313,468 and \$321,184	321,753	367,660
Bond issuance costs	655,674	156,053
Capital assets—net	<u>58,817,440</u>	<u>54,603,656</u>
Total noncurrent assets	<u>84,140,557</u>	<u>56,412,233</u>
TOTAL	<u>\$ 98,750,311</u>	<u>\$ 67,194,448</u>

(Continued)

SHEPHERD UNIVERSITY

STATEMENTS OF NET ASSETS AS OF JUNE 30, 2005 AND 2004

	2005	2004
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	\$ 2,876,682	\$ 2,121,739
Accrued liabilities	682,259	520,672
Due to the Commission	13,250	116,928
Due to other State agencies	23,237	56,288
Compensated absences—current portion	696,293	593,787
Debt obligation due Commission—current portion	459,572	451,799
Deferred revenue	907,473	999,708
Deposits	180,205	164,490
Bonds payable- current portion	260,000	105,000
Capital lease obligation—current portion	<u>60,555</u>	<u>6,433</u>
Total current liabilities	<u>6,159,526</u>	<u>5,136,844</u>
NONCURRENT LIABILITIES:		
Advances from federal sponsors	639,434	762,119
Compensated absences	1,420,469	1,412,926
Debt obligation due Commission	2,688,448	3,148,020
Bonds payable	32,599,850	5,885,000
Capital lease obligation	<u>211,184</u>	<u>22,903</u>
Total noncurrent liabilities	<u>37,559,385</u>	<u>11,230,968</u>
Total liabilities	<u>43,718,911</u>	<u>16,367,812</u>
NET ASSETS:		
Invested in capital assets—net of related debt	<u>45,244,237</u>	<u>45,807,178</u>
Restricted for—		
Expendable:		
Loans	98,953	82,122
Debt service	528,534	600,030
Other restricted	88,544	21,281
Capital projects	<u>264,075</u>	<u>655,863</u>
Total expendable	<u>980,106</u>	<u>1,359,296</u>
Unrestricted	<u>8,807,057</u>	<u>3,660,162</u>
Total net assets	<u>55,031,400</u>	<u>50,826,636</u>
TOTAL	<u>\$98,750,311</u>	<u>\$67,194,448</u>

See notes to financial statements.

(Concluded)

SHEPHERD UNIVERSITY

**THE SHEPHERD UNIVERSITY FOUNDATION, INCORPORATED,
A COMPONENT UNIT OF SHEPHERD UNIVERSITY
STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2005 AND 2004**

	2005	2004
ASSETS:		
Cash and cash equivalents	\$ 714,876	\$ 1,080,771
Pledges receivable	1,165	4,830
Contributions receivable	1,824	21,164
Accrued interest receivable	97,051	103,887
Prepaid expenses	5,162	4,356
Investments	19,558,813	18,060,926
Equipment—net	<u>6,303</u>	<u>2,953</u>
TOTAL	<u><u>\$ 20,385,194</u></u>	<u><u>\$ 19,278,887</u></u>
LIABILITIES:		
Accounts payable	\$ 3,985	\$ 187
Accrued payroll expenses	323	4,153
Custodial liabilities	2,855,586	2,909,169
Gift annuities payable	<u>118,157</u>	<u>137,562</u>
Total liabilities	<u>2,978,051</u>	<u>3,051,071</u>
NET ASSETS:		
Unrestricted	402,485	130,742
Temporarily restricted	690,654	617,235
Permanently restricted	<u>16,314,004</u>	<u>15,479,839</u>
Total net assets	<u>17,407,143</u>	<u>16,227,816</u>
TOTAL	<u><u>\$ 20,385,194</u></u>	<u><u>\$ 19,278,887</u></u>

See notes to financial statements.

SHEPHERD UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
OPERATING REVENUES:		
Student tuition and fees, net of scholarship allowance of \$4,028,529 and \$3,282,227	\$ 13,392,022	\$ 12,089,915
Contracts and grants:		
Federal	3,193,353	3,168,944
State	2,675,626	1,973,532
Private	791,374	624,315
Interest on student loans receivable	13,386	23,548
Sales and services of educational activities	39,858	35,610
Auxiliary enterprise revenue, net of scholarship allowance of \$47,470 and \$49,299	10,180,484	8,944,331
Other operating revenues	<u>756,240</u>	<u>918,974</u>
 Total operating revenues	 <u>31,042,343</u>	 <u>27,779,169</u>
OPERATING EXPENSES:		
Salaries and wages	18,006,391	17,438,507
Benefits	4,319,859	3,881,868
Supplies and other services	10,159,129	10,301,146
Utilities	1,449,873	1,386,891
Student financial aid—scholarships and fellowships	2,233,554	2,158,624
Depreciation	3,402,044	3,585,419
Fees assessed by the Commission for operations	<u>264,432</u>	<u>190,212</u>
 Total operating expenses	 <u>39,835,282</u>	 <u>38,942,667</u>
 OPERATING LOSS	 <u>(8,792,939)</u>	 <u>(11,163,498)</u>

(Continued)

SHEPHERD UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
NONOPERATING REVENUES (EXPENSES):		
State appropriations	\$ 11,550,130	\$ 11,008,431
Investment income	399,231	164,648
Interest on indebtedness	(230,684)	(285,173)
Fees assessed by the Commission	(266,321)	(260,029)
Loss on disposal of equipment	<u>(64,393)</u>	<u>(45,797)</u>
Net nonoperating revenues	<u>11,387,963</u>	<u>10,582,080</u>
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	2,595,024	(581,418)
CAPITAL GRANTS AND GIFTS	<u>1,609,740</u>	<u>1,489,259</u>
INCREASE IN NET ASSETS BEFORE TRANSFERS	4,204,764	907,841
TRANSFER OF LIABILITY FROM THE COMMISSION	<u> </u>	<u>(90,359)</u>
INCREASE IN NET ASSETS	4,204,764	817,482
NET ASSETS—Beginning of year	<u>50,826,636</u>	<u>50,009,154</u>
NET ASSETS—End of year	<u>\$ 55,031,400</u>	<u>\$ 50,826,636</u>
See notes to financial statements.		(Concluded)

SHEPHERD UNIVERSITY

THE SHEPHERD UNIVERSITY FOUNDATION, INCORPORATED

A COMPONENT UNIT OF SHEPHERD UNIVERSITY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2005

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

See notes to financial statements.

SHEPHERD UNIVERSITY

THE SHEPHERD UNIVERSITY FOUNDATION, INCORPORATED

A COMPONENT UNIT OF SHEPHERD UNIVERSITY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT:				
Cash contributions	\$ -	\$ 316,839	\$ 512,331	\$ 829,170
Stock contributions			65,035	65,035
Other noncash 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 (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>	
Total revenue and other support	<u>1,177,481</u>	<u>(177,681)</u>	<u>1,949,315</u>	<u>2,949,115</u>
EXPENSES:				
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

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	\$ 13,513,085	\$ 12,562,041
Contracts and grants	5,583,241	5,996,508
Payments to and on behalf of employees	(22,148,945)	(21,482,737)
Payments to suppliers	(9,962,556)	(10,376,664)
Payments to utilities	(1,395,512)	(1,248,078)
Payments for scholarships and fellowships	(2,235,954)	(2,158,625)
Loans issued to students	(101,409)	(110,491)
Collection of loans to students	152,302	167,703
Sales and service of educational activities	39,858	35,609
Auxiliary enterprise charges	10,101,273	8,992,102
Fees retained by Commission	(368,110)	(125,243)
Other receipts—net	<u>647,867</u>	<u>913,420</u>
Net cash used in operating activities	<u>(6,174,860)</u>	<u>(6,834,455)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	11,550,130	11,102,972
Federal student loan program—direct lending receipts	11,625,020	10,311,542
Federal student loan program—direct lending payments	<u>(11,625,020)</u>	<u>(10,311,542)</u>
Net cash provided by noncapital financing activities	<u>11,550,130</u>	<u>11,102,972</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Capital grants and gifts received	1,609,740	1,489,259
Proceeds from capital debt	29,284,508	
Bond issuance costs	(499,623)	
Interest paid on capital debt and leases	(252,887)	(279,664)
Purchases of capital assets	(7,093,709)	(8,117,435)
Principal paid on capital debt and leases	(2,624,055)	(710,131)
Decrease (increase) in noncurrent cash and cash equivalents	(3,197,559)	1,703,581
Debt service assessed by the Commission for debt service and reserves	<u>(266,321)</u>	<u>(260,029)</u>
Net cash provided by (used in) capital financing activities	<u>16,960,094</u>	<u>(6,174,419)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales (purchases) of investments	(19,863,267)	4,296,941
Interest on investments	<u>341,221</u>	<u>166,721</u>
Net cash (used in) provided by investing activities	<u>(19,522,046)</u>	<u>4,463,662</u>
INCREASE IN CASH AND CASH EQUIVALENTS	2,813,318	2,557,760
CASH AND CASH EQUIVALENTS—Beginning of year	<u>9,651,536</u>	<u>7,093,776</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 12,464,854</u>	<u>\$ 9,651,536</u>

(Continued)

SHEPHERD UNIVERSITY

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (8,792,939)	\$ (11,163,498)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	3,402,044	3,585,419
Changes in assets and liabilities:		
Accounts receivables—net	10,544	445,270
Loans to students—net	50,894	57,213
Due from the Commission	(969,287)	(2,705)
Due from other State agencies	925	(3,142)
Prepaid expenses	7,058	(6,089)
Inventories	(76,312)	(24,921)
Accounts payable	359,096	38,853
Accrued liabilities	59,002	(37,588)
Compensated absences	110,049	(118,686)
Due to the Commission	(103,678)	64,970
Due to other State agencies	(33,051)	49,362
Deferred revenue	(92,235)	267,850
Deposits held in custody for others	15,715	39,196
Advances from Federal Sponsors	<u>(122,685)</u>	<u>(25,959)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (6,174,860)</u>	<u>\$ (6,834,455)</u>
NONCASH TRANSACTIONS:		
Construction in progress additions in accounts payable	<u>\$ 1,668,969</u>	<u>\$ 1,041,616</u>

See notes to financial statements.

(Concluded)

SHEPHERD UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

1. ORGANIZATION

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the University have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (“GASB”), including Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities* (an amendment of GASB Statement No. 37). The financial statement presentation required by GASB No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the University’s assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows and replaces the fund-group perspective previously required.

The University follows all GASB pronouncements as well as Financial Accounting Standards Board (“FASB”) Statements, Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, and has elected not to apply the FASB Statements and Interpretations issued after November 30, 1989, to its financial statements.

Reporting Entity—The University is an operating unit of the West Virginia Higher Education Fund and represents separate funds of the State of West Virginia (the “State”) that are not included in the State’s general fund. The University is a separate entity that, along with all State institutions of higher education the Commission (which includes West Virginia Network for Educational Telecomputing (“WVNET”) and West Virginia Council for Community and Technical College Education, form the Higher Education

Fund of the State. The Higher Education Fund is considered a component unit of the State, and its financial statements are discretely presented in the State's comprehensive annual financial report.

The accompanying financial statements present all funds under the authority of the University. The basic criterion for inclusion in the accompanying financial statements is the exercise of oversight responsibility derived from the University's ability to significantly influence operations and accountability for fiscal matters of related entities. A related Foundation and another affiliate of the University are not part of the University reporting entity and are not included in the accompanying financial statements as the University has no ability to designate management, cannot significantly influence operations of these entities and is not accountable for the fiscal matters of the Foundation and other affiliates under GASB Statement No. 14, *The Financial Reporting Entity*.

As of July 1, 2003, the University adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, as an amendment to GASB Statement No. 14. As a result, the audited financial statements of The Shepherd University Foundation, Incorporated (the "Foundation") are discretely presented here with the University's financial statements for the fiscal years ended June 30, 2005 and 2004. 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 12 and 16).

Financial Statement Presentation—GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statements No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* and No. 38, *Certain Financial Statement Note Disclosures* establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a combined basis to focus on the University as a whole. Net assets are classified into four categories according to external donor restrictions or availability of assets for satisfaction of University obligations. The University's net assets are classified as follows:

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

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

- *Restricted Net Assets, nonexpendable*—This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing

present and future income, which may either be expended or added to principal. The University does not have any restricted nonexpendable net assets at June 30, 2005 or 2004.

- **Unrestricted Net Assets**—Unrestricted net assets represent resources derived from student tuition and fees, state appropriations and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the Board of Governors to meet current expenses for any purpose.

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

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

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”). The State Treasurer’s Office is permitted by West Virginia Code 12-1-12A to invest up to \$125 million in overnight repurchase agreements. 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 in accordance with West Virginia Code, policies set by the IMB, and by provisions of bond indentures and trust agreements, when applicable. Balances in the investment pools are recorded at fair value, which is determined by a third-party pricing service based on asset portfolio pricing models and other sources, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments for External Investment Pools*. The IMB was established by the State Legislature and is subject to oversight by the State Legislature. Fair value and investment income are allocated to participants in the 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.

The IMB maintains the Consolidated Fund investment fund which consists of five investment pools and participant-directed accounts, in which the state and local governmental agencies invest. The IMB also manages other investment pools which include amounts invested by pension funds of the State, as well as certain operating funds of the Workers’ Compensation Fund (the “Fund”) and other funds. These pools have been structured as multi-participant variable net asset funds to reduce risk and offer investment liquidity diversification to the Fund participants. Funds not required to meet immediate disbursement needs are invested for longer periods. A more detailed discussion of the IMB’s investment operations pool can be found in the IMB’s annual report. A copy of the IMB’s annual report can be obtained from the following address: 500 Virginia Street East, Suite 200, Charleston, WV 25301 or <http://www.wvimb.org>.

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

Allowance for Doubtful Accounts—It is the University’s policy to provide for future losses on uncollectible accounts, contracts, grants and loans receivable based on an evaluation of the underlying account, contract, grant and loan balances, the historical collectibility experienced by the University on

such balances and such other factors which, in the University's judgment, require consideration in estimating doubtful accounts.

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

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

Investments—Investments are recorded at fair value. The University's investments were on deposit with WesBanco Bank, Inc. (the "Trustee Bank"). These funds primarily represented unexpended proceeds of bond issuances, and were restricted to expenditures for capital improvements and bond related costs. Funds on deposit were invested in a money market fund sponsored by investment companies, 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.

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

Capital Assets—Capital assets include property, plant and equipment, books and materials that are part of a catalogued library, and infrastructure assets. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Interest on related borrowing, net of interest earnings on invested proceeds, capitalized during the period of construction was \$124,763 for the year ended June 30, 2005. 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 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.
- **Other Revenues**—Other revenues consist primarily of capital gains and gifts.

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

Federal Financial Assistance Programs—The University makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students, through universities like the University. Direct student loan receivables are not included in the University’s statements of net assets as the loans are repayable directly to the U.S. Department of Education. In 2005 and 2004, the University received and disbursed approximately \$11,600,000 and \$10,300,000, 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 2005 and 2004, the University received and disbursed approximately \$ 3,026,000 and \$2,872,000, 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.

Risk and Uncertainties—Investments are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain securities, it is reasonably possible that changes in risk and values will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Recent Statements Issued by the Government Accounting Standards Board—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 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.

The GASB has also issued Statement No. 46, *Net Assets Restricted by Enabling Legislation* (an amendment of GASB Statement No. 34), effective for fiscal years beginning after June 15, 2005. This statement provides guidance clarifying the meaning of the phrase “legally enforceable” as it applies to restrictions imposed on net asset use by enabling legislation. The University has not yet determined the effect, if any, that adoption of GASB Statement No. 46 may have on its financial statements.

The GASB has also issued Statement No. 47, *Accounting for Termination Benefits*, effective for fiscal years beginning after June 15, 2005. However, for termination benefits that affect defined benefit postemployment benefits other than pensions, GASB Statement No. 47 should be implemented simultaneously with GASB Statement No. 45. This statement provides recognition and measurement guidance related to benefits provided to employees that are terminated. The College has not yet determined the effect, if any that adoption of GASB Statement No. 47 may have on its financial statements.

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, 2005 and 2004:

	2005		
	Current	Noncurrent	Total
Cash on deposit with the State Treasurer	\$ 12,039,928	\$ -	\$ 12,039,928
Cash with Bond Trustee		4,482,423	4,482,423
Cash in bank	<u>424,926</u>		<u>424,926</u>
	<u>\$ 12,464,854</u>	<u>\$ 4,482,423</u>	<u>\$ 16,947,277</u>

	2004		
	Current	Noncurrent	Total
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>394,606</u>
	<u>\$ 9,651,536</u>	<u>\$ 1,284,864</u>	<u>\$ 10,936,400</u>

Cash on deposit with the State Treasurer includes \$318,818 in 2005 and \$191,600 in 2004 of restricted cash for the library renovation project, grants, and loans.

Cash with trustee banks includes deposits held by the Bond Trustee for the bonds issued in January 2003, September 2004, and May 2005. The University uses the Trustee Bank as its trustee for the bond proceeds. The total amount held by the Trustee Bank on June 30, 2005 and 2004 was \$4,874,692 and \$1,284,864, respectively, and was invested in U.S. Treasury money market funds.

The combined carrying amount of cash in the bank at June 30, 2005 and 2004 was \$424,926 and \$394,606, respectively, as compared with the combined bank balance of \$648,028 and \$528,150, 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 State Treasurer is comprised of the following investment pools:

Cash Liquidity Pool

Credit risk

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

The following table provides information on the weighted average credit ratings of the cash liquidity pool's investments:

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

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

The University's ownership represents .59% of the net asset position of this pool.

Concentration of credit risk

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

Custodial credit risk

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

Interest rate risk

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

The following table provides the weighted average maturities ("WAM") for the various asset types in the cash liquidity pool:

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

Foreign currency risk

The Cash Liquidity pool has no securities that are subject to foreign currency risk.

Government Money Market Pool

Credit risk

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

The University's ownership represents .06% of the net asset position of this pool.

Concentration of credit risk

West Virginia statutes prohibit the government money market pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2005, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

Custodial credit risk

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

Interest rate risk

The weighted average maturity of the investments of the government money market pool cannot exceed 60 days. The maturity of floating rate notes is assumed to be the next interest rate reset date.

The following table provides the WAM for the various asset types in the government money market pool:

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

Foreign currency risk

The government money market pool has no securities that are subject to foreign currency risk.

Enhanced Yield Pool

Credit risk

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

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

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

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

The University's ownership represents .92% of the net asset position of this pool.

Concentration of credit risk

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

Custodial credit risk

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

Interest rate risk

The weighted average maturity of the investments of the Enhanced Yield pool cannot exceed two years. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the WAM for the various asset types in the Enhanced Yield pool.

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

Foreign currency risk

The Enhanced Yield pool has no securities that are subject to foreign currency risk.

4. INVESTMENTS

Investments consist of the following at June 30, 2005 and 2004:

	2005	2004
Repurchase agreements	\$ 19,470,998	\$ -
U.S. Treasury money market fund	<u>392,269</u>	<u>-</u>
	<u>\$ 19,863,267</u>	<u>\$ -</u>

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

5. ACCOUNTS RECEIVABLE

Accounts receivable were as follows at June 30, 2005 and 2004:

	2005	2004
Student tuition and fees, net of allowance for doubtful accounts of \$175,555 and \$206,737	\$ 254,396	\$ 286,559
Grants and contracts receivable	<u>244,172</u>	<u>222,553</u>
	<u>\$ 498,568</u>	<u>\$ 509,112</u>

6. CAPITAL ASSETS

The following is a summary of capital assets transactions for the University for the years ended June 30, 2005 and 2004:

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

	2004			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 945,577	\$ -	\$ -	\$ 945,577
Construction in progress	3,041,107	6,124,881	6,594,954	2,571,034
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	3,236,345	214,744	30,712	3,420,377
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	2,252,373	238,660	30,712	2,460,321
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	72,872,529	8,061,849	225,673	80,708,705
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>

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.

7. LONG-TERM LIABILITIES

The following is a summary of long-term obligation transactions for the University for the years ended June 30, 2005 and 2004:

	2005				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term liabilities:					
Accrued compensated absences	\$ 2,006,713	\$ 110,049	\$ -	\$ 2,116,762	\$ 696,293
Debt obligation due Commission	3,599,819		451,799	3,148,020	459,572
Bonds payable	5,990,000	28,994,850	2,125,000	32,859,850	260,000
Capital lease obligations	29,336	289,658	47,256	271,738	60,555
Advances from Federal Sponsors	762,119		122,685	639,434	
Total long-term liabilities	<u>\$ 12,387,987</u>	<u>\$ 29,394,557</u>	<u>\$ 2,746,740</u>	<u>\$ 39,035,804</u>	

	2004				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
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>	

8. BONDS

Bonds payable consisted of the following at June 30, 2005 and 2004:

	Interest Rate	Annual Principal Installment Due	Principal	
			Amount Outstanding	
			2005	2004
Student Fee Revenue Bonds, due through 2033	3.0 % to 5.125%	\$ 105,000 to 370,000	\$ 5,885,000	\$ 5,990,000
Infrastructure Revenue Bonds, due through 2024	2.0 % to 4.5%	\$ 125,000 to 240,000	3,250,000	
Residence Facilities Revenue Bonds, due through 2035	3.25 % to 5.0%	\$ 435,000 to 1,450,000	<u>22,925,000</u>	
			32,060,000	5,990,000
Discount			(42,252)	
Premium			<u>842,102</u>	
			<u>\$ 32,859,850</u>	<u>\$ 5,990,000</u>

Student Fee Revenue Bonds

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

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

The debt service reserve fund must maintain deposits totaling \$390,108 as required by the Indenture. Deposits in the debt service reserve funds totaled \$425,231 and \$409,179 as of June 30, 2005 and 2004, respectively.

Infrastructure Revenue Bonds

In September 2004, \$3,405,000 of Infrastructure Revenue Bonds, Series 2004 (the “Bonds”) were sold. The Bonds were issued under the authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended and the Bonds are secured pursuant to the Indenture and Security Agreement dated as of January 1, 2003, by and between the Board and the Trustee. The Bonds were issued to (1) finance the costs of planning, design, acquisition, construction and equipping of certain capital improvements for Shepherd University, including certain roads, water and sewer system expansion, extensions and improvements and other infrastructure projects on the West Campus of the University and other capital renovations and improvements to the University’s campus, and to pay the costs of issuance of the Bonds and related costs.

The Bonds consist of \$1,425,000 Serial Bonds with varying interest rates from 2.00% to 3.625%, and mature serially from June 1, 2005 to June 1, 2014. Term Bonds of \$885,000 and \$1,095,000 bear interest at 4.000% and 4.50% and mature June 1, 2019 and June 1, 2024, respectively. Term Bonds are subject to mandatory redemption prior to maturity from December 1, 2016 through 2028. The redemption prices are 100% of the principal amount, plus accrued interest.

The Bonds maturing on and after June 1, 2014, are subject to redemption prior to maturity, in multiples of \$5,000, at par, plus accrued interest to the date fixed for redemption.

The Bonds are special obligations of the Board and are secured by and payable from fees assessed to students of the College held under the Indenture. Beginning in the fall 2004 semester, Capital Financing Fees (“Fees”) of an estimated \$48 per student per semester, based on FTE enrollment are pledged to the Bonds, with pro-rata reductions for those students enrolled part time and during the summer term. The Bonds shall not be deemed to be general obligations or a debt of the State of West Virginia (the “State”) within the meaning of the Constitution of the State and the credit or taxing power of the State or the University shall not be pledged therefore.

The University has fixed and will maintain and collect Fees from all students enrolled in the University. Fees shall at all times be sufficient to provide pledged revenues each fiscal year to at least 100% of maximum annual debt service. During the year ended June 30, 2005, net revenues, when combined with other monies legally available for payment of debt service were 116% of the maximum annual debt service.

Residence Facilities Revenue Bonds

In May 2005, \$22,925,000 of Revenue Bonds (Shepherd University Residence Facilities Projects) Series 2003 (the “Bonds”) were sold. The Bonds were issued under the authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended and the Bonds are secured pursuant to the Indenture and Security Agreement dated as of May, 24 2005, by and between the Board and the Trustee. The Bonds were issued to (1) finance the costs of planning, design, acquisition, construction and equipping of a 300-bed apartment style residence complex on the West Campus of the University; fund capitalized interest on the Series 2005 Bonds to January 1, 2007; refund the Issuer’s \$1,865,000 University Facilities Revenue Notes, Series 2004A, which were issued to finance temporarily a portion of the costs of planning design, acquisition, construction and equipping of certain renovations and improvements to Shaw Hall, Thacher Hall, and other capital renovations and improvements to the

University's residence facilities pending issuance of the Series 2005 Bonds; pay the costs of issuance of the Series 2005 Bonds.

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

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

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

The University has fixed and will maintain and collect Fees from all students enrolled in the University. Fees shall at all times be sufficient to provide pledged revenues each fiscal year. No apartment rental revenues were collected during the period ended June 30, 2005. The initial coverage covenant will be for the fiscal year ended June 30, 2007.

A summary of the annual aggregate principal and interest payments for years subsequent to June 30, 2005 is as follows:

Year Ending June 30	2003 Bonds		2004 Bonds		2005 Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 110,000	\$ 278,408	\$ 125,000	\$ 121,705	\$ -	\$ 1,112,513
2007	115,000	275,108	130,000	119,205		1,091,924
2008	115,000	271,658	130,000	116,605	435,000	1,091,924
2009	120,000	268,092	135,000	113,485	450,000	1,077,156
2010	125,000	264,012	140,000	109,840	460,000	1,062,531
2011–2015	700,000	1,239,662	775,000	477,690	2,570,000	5,052,625
2016–2020	880,000	1,063,754	920,000	319,775	3,180,000	4,450,000
2021–2025	1,125,000	815,828	895,000	102,825	4,055,000	3,571,500
2026–2030	1,435,000	497,894			5,175,000	2,451,750
2031–2035	1,055,000	109,930			6,600,000	1,022,000
Total	<u>\$ 5,780,000</u>	<u>\$ 5,084,346</u>	<u>\$ 3,250,000</u>	<u>\$ 1,481,130</u>	<u>\$ 22,925,000</u>	<u>\$ 21,983,923</u>

9. COMPENSATED ABSENCES

The composition of the compensated absence liability was as follows at June 30, 2005 and 2004:

	2005	2004
Health or life insurance benefits	\$1,196,346	\$1,140,754
Accrued vacation leave	<u>920,416</u>	<u>865,959</u>
	<u>\$2,116,762</u>	<u>\$2,006,713</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, 2005 and 2004, the amount paid by the University for extended health or life insurance coverage retirement benefits totaled approximately \$79,160 and \$65,483, respectively. As of June 30, 2005 and 2004, there were 42 and 35 retirees, respectively, currently receiving these benefits.

10. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

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

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

The Commission has the authority to assess each public institution of higher education for payment of debt service on these system bonds. The tuition and registration fees of the members of the former State University System are generally pledged as collateral for the Commission’s bond indebtedness. Student fees collected by the institution in excess of the debt service allocation are retained by the institution for internal funding of capital projects and maintenance. Although the bonds remain as capital obligation of the Commission, an estimate of the obligation of each institution is reported as a long-term payable by each institution and as a receivable by the Commission, effective as of June 30, 2005.

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

For the years ended June 30, 2005 and 2004 the debt service assessed was as follows:

	2005	2004
Principal	\$ 451,799	\$ 706,361
Interest	140,613	103,160
Other	<u>125,708</u>	<u>156,869</u>
	<u>\$ 718,120</u>	<u>\$ 966,390</u>

11. RETIREMENT PLANS

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

Effective January 1, 2003, higher education employees enrolled in the basic 401(a) retirement plan with TIAA-CREF have an option to switch to the Educators Money 401(a) basic retirement plan. New hires have the choice of either plan.

The STRS is a cost sharing, public employee retirement system. Employer and employee contribution rates are established annually by the State Legislature. The University accrued and paid its contribution to the STRS at the rate of 15% % of each enrolled employee's total annual salary for the years ended June 30, 2005 and 2004. Required employee contributions were at the rate of 6% of total annual salary for the years ended June 30, 2005 and 2004. Participants in the STRS may retire with full benefits upon reaching age 60 with 5 years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest 5 years' salary out of the last 15 years) multiplied by the number of years of service.

Total contributions to the STRS for the years ended June 30, 2005, 2004 and 2003 were \$145,698, \$169,608 and \$166,867, respectively, which consisted of \$102,317, \$119,699 and \$117,762, from the University in 2005, 2004 and 2003, respectively, and \$43,381, \$49,909 and \$49,105 from the covered employees in 2005, 2004 and 2003, 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, 2005, 2004 and 2003, were \$1,830,095, \$1,650,541 and \$1,596,929, respectively, which consisted of equal contributions from the University and covered employees in 2005, 2004 and 2003 of \$915,047, \$825,271 and \$798,465, respectively.

Total contributions to the Great West for the years ended June 30, 2005, 2004, and 2003, were \$574, \$0, and \$0, respectively, which consisted of equal contributions from the University and the covered employees of \$287 and \$287 in 2005, \$0 from the University and \$0 from the covered employees in both 2004 and 2003.

The University's total payroll for the years ended June 30, 2005 and 2004 was \$18,006,391 and \$17,438,507, respectively, and total covered employees' salaries in the STRS, TIAA-CREF, and Great West were \$759,106, \$15,250,789, and \$4,783 in 2005, and \$865,626, \$13,754,512, and \$0 in 2004, respectively.

12. FOUNDATION

The Shepherd University Foundation, Incorporated (the "Foundation"), is a separate nonprofit organization incorporated in the State of West Virginia and has as its purpose ". . . to aid, strengthen and further in every proper and useful way, the work and services of the 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, 2005 and 2004, the Foundation's net assets (including unrealized gains) totaled \$17,407,143 and \$16,227,816, respectively. Complete financial statements for the Foundation can be obtained from The Shepherd University Foundation, Incorporated, P.O. Box 3210, Shepherdstown, West Virginia 25443-3210.

During the years ended June 30, 2005 and 2004, the Foundation contributed \$401,299 and \$317,627, respectively, to the University for scholarships and awards.

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).

13. 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.

14. 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.

15. SEGMENT INFORMATION

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

In September 2004, \$3,405,000 of Infrastructure Revenue Bonds, Series 2004 (the "Bonds") were sold. The Bonds were issued under the authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended and the Bonds are secured pursuant to the Indenture and Security Agreement dated as of January 1, 2003, by and between the Board and the Trustee. The Bonds were issued to (1) finance the costs of planning, design, acquisition, construction and equipping of certain capital improvements for Shepherd University, including certain roads, water and sewer system expansion, extensions and improvements and other infrastructure projects on the West Campus of the University and other capital renovations and improvements to the University's campus, and to pay the costs of issuance of the Bonds and related costs.

In May 2005, \$22,925,000 of Revenue Bonds (Shepherd University Residence Facilities Projects) Series 2003 (the "Bonds") were sold. The Bonds were issued under the authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended and the Bonds are secured pursuant to the Indenture and Security Agreement dated as of May, 24 2005, by and between the Board and the Trustee

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

	Student Fee		Infrastructure		Residence Facilities Projects	
	Revenue Bonds 2003		Revenue Bonds 2004		Revenue Bonds 2005	
	2005	2004	2005	2004	2005	2004
Condensed Statement of Net Assets						
as of June 30						
ASSETS:						
Current asset	\$ 386,826	\$ 283,282	\$ 45,378	\$ -	\$ 55,687	\$ -
Noncurrent assets	5,597,010	5,913,937	3,930,843		22,401,949	
Total assets	5,983,836	6,197,219	3,976,221		22,457,637	
LIABILITIES:						
Current liabilities	158,850	290,024	472,758		576,844	
Noncurrent liabilities	5,780,000	5,885,000	3,250,000		23,769,957	
Total liabilities	5,938,850	6,175,024	3,722,758		24,346,801	
NET ASSETS (DEFICIT):						
Invested in capital assets—net of related debt	(800,491)	(723,274)	214,431		(1,850,364)	
Restricted—Debt service	482,113	462,187	3,795		(38,800)	
Unrestricted	363,364	283,282	35,237			
Total net assets	44,986	22,195	253,463		(1,889,164)	
Total net assets and liabilities	\$ 5,983,836	\$ 6,197,219	\$ 3,976,221	\$ -	\$ 22,457,637	\$ -

	Student Fee		Infrastructure		Residence Facilities Projects	
	Revenue Bonds 2003		Revenue Bonds 2004		Revenue Bonds 2005	
	2005	2004	2005	2004	2005	2004
Condensed Statement of Revenues, Expense and Changes in Net Assets for Year Ended June 30						
OPERATING:						
Operating revenues	\$ 491,676	\$ 478,143	\$ 293,982	\$ -	\$ -	\$ -
Operating expenses	(145,447)	(103,118)	(104,854)	—	—	—
Net operating income	346,229	375,025	189,128	—	-	—
NONOPERATING:						
Nonoperating revenues		42,732	64,335		73,502	
Nonoperating expenses	(323,438)	(284,707)	—	—	(97,666)	—
	(323,438)	(241,975)	64,335	—	(24,164)	—
INCREASE (DECREASE) IN NET ASSETS BEFORE TRANSFERS	22,791	133,050	253,463		(24,164)	
TRANSFERS					(1,865,000)	
NET ASSETS—Beginning of year	22,195	(110,855)	—	—	—	—
NET ASSETS—End of year	\$ 44,986	\$ 22,195	\$ 253,463	\$ -	\$ (1,889,164)	\$ -
Condensed Statement of Cash Flows for Year Ended June 30						
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 344,406	\$ 375,025	\$ 197,756	\$ -	\$ -	\$ -
NET CASH USED IN (PROVIDED BY) CAPITAL AND RELATED FINANCING	(287,672)	(4,431,767)	172,934		19,397,496	
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	44,986	4,339,673	(327,934)	—	(19,397,496)	—
INCREASE IN CASH AND CASH EQUIVALENTS	101,720	282,931	42,756			
CASH AND CASH EQUIVALENTS—Beginning of year	282,931	—	—	—	—	—
CASH AND CASH EQUIVALENTS—End of year	\$ 384,651	\$ 282,931	\$ 42,756	\$ -	\$ -	\$ -

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 the Shepherd University.

Basis of Accounting—The financial statements of the Shepherd University Foundation, Inc. are presented on the accrual basis of accounting, in accordance with 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 in the amount of \$300 or more are capitalized and the replaced items are retired. Maintenance and repairs are expensed as incurred. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets as follows:

	Years
Equipment	3–7
Building and improvements	40

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

Functional Allocation of Expenses—The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly,

certain costs have been allocated among the programs and supporting services based upon management's judgment and past experience.

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

Use of Estimates in the Preparation of Financial Statements—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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

B. PLEDGES RECEIVABLE

Pledges receivable represent amounts due to the Foundation for legally enforceable pledges. These pledges are payable in full or in part through June 30, 2006.

Pledges receivable as of June 30, 2005 and 2004 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.

	2005	2004
Receivable in less than one year	\$ 1,165	\$ 3,705
Receivable in one to five years	<u> </u>	<u>1,125</u>
Total pledges receivable	<u>\$ 1,165</u>	<u>\$ 4,830</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, 2005 and 2004 are composed of the following:

Description	Cost	Market
2005:		
Cash and temporary investments	\$ 1,850,000	\$ 1,852,376
U.S. Government securities	9,925,042	10,275,875
Corporate bonds and notes	730,644	739,135
Common stocks	<u>5,999,183</u>	<u>6,530,608</u>
Investment securities	<u>\$18,504,869</u>	<u>\$19,397,994</u>

Description	Cost	Market
2004:		
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>

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

The investment in real estate is comprised of the following:

Description	Cost	Accumulated Depreciation	Net Book Value
2005:			
Land	\$ 40,000	\$ -	\$ 40,000
Building	<u>160,202</u>	<u>39,383</u>	<u>120,819</u>
	<u>\$ 200,202</u>	<u>\$ 39,383</u>	<u>\$ 160,819</u>
2004:			
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>

The following is a summary of the Foundation's investments at June 30, 2005 and 2004:

Description	Cost	Market
2005:		
Investment securities	\$ 18,504,869	\$ 19,397,994
Real estate	<u>160,819</u>	<u>160,819</u>
	<u>\$ 18,665,688</u>	<u>\$ 19,558,813</u>
2004:		
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>

D. EQUIPMENT

Equipment consists of the following:

	2005	2004
Office equipment (at cost)	\$ 9,672	\$ 5,199
Accumulated depreciation	<u>(3,369)</u>	<u>(2,246)</u>
Net book value	<u>\$ 6,303</u>	<u>\$ 2,953</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, 2005 and 2004 are as follows:

	2005	2004
Custodial receipts	\$ 110,370	\$ 107,503
Custodial payments	(296,390)	(256,141)
Interest and gains on investments	<u>132,437</u>	<u>(32,874)</u>
Net decrease in custodial liabilities	<u>\$ (53,583)</u>	<u>\$ (181,512)</u>

F. GIFT ANNUITIES

Gift annuities payable consist of the following liabilities:

	2005	2004
Daniel and Orpha Cowgill Annuity	\$ 45,286	\$ 46,418
James K. Wright, Jr. Annuity	47,275	49,019
M. Louise Shimp Annuity		15,741
Benjamin and Mary Lou Mehrling Annuity	5,760	5,916
James K. and Gladys L. Wright Annuity	<u>19,836</u>	<u>20,468</u>
Total	<u>\$ 118,157</u>	<u>\$ 137,562</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, 2005 and 2004 was \$5,019 and \$3,455, 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 2003, 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 2005 and 2004, 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.

17. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2005 and 2004, the following table represents operating expenses within both natural and functional classifications:

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

	2004							
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Fees Assesed 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
Total	<u>\$ 17,438,507</u>	<u>\$ 3,881,868</u>	<u>\$ 10,301,146</u>	<u>\$ 1,386,891</u>	<u>\$ 2,158,624</u>	<u>\$ 3,585,419</u>	<u>\$ 190,212</u>	<u>\$ 38,942,667</u>

* * * * *

ADDITIONAL INFORMATION

SHEPHERD UNIVERSITY

SCHEDULE OF NET ASSETS INFORMATION AS OF JUNE 30, 2005

ALL FUNDS

	Community and Technical College	Four-Year and Other	Total Institution
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 1,644,114	\$ 10,820,740	\$ 12,464,854
Due from the Commission	3,977	973,704	977,681
Amount due from the State	1,200	11,050	12,250
Accounts receivable—net	54,625	443,943	498,568
Loans to students—current portion		179,505	179,505
Prepaid expenses		19,560	19,560
Inventories		457,336	457,336
Total current assets	<u>1,703,916</u>	<u>12,905,838</u>	<u>14,609,754</u>
NONCURRENT ASSETS:			
Cash and cash equivalents		4,482,423	4,482,423
Investments		19,863,267	19,863,267
Loans to students, net of allowance of \$313,468 and \$321,184		321,753	321,753
Bond issuance costs		655,674	655,674
Capital assets—net	790,766	58,026,674	58,817,440
Total noncurrent assets	<u>790,766</u>	<u>83,349,791</u>	<u>84,140,557</u>
TOTAL	<u>\$ 2,494,682</u>	<u>\$ 96,255,629</u>	<u>\$ 98,750,311</u>
LIABILITIES			
CURRENT LIABILITIES:			
Accounts payable	\$ 133,385	\$ 2,743,297	\$ 2,876,682
Accrued liabilities	40,335	641,924	682,259
Due to the Commission		13,250	13,250
Due to other State agencies	4,593	18,644	23,237
Compensated absences—current portion	36,169	660,124	696,293
Debt obligation due Commission—current portion	83,228	376,344	459,572
Deferred revenue	184,342	723,131	907,473
Deposits		180,205	180,205
Bonds payable- current portion		260,000	260,000
Capital lease obligation—current portion		60,555	60,555
Total current liabilities	<u>482,052</u>	<u>5,677,474</u>	<u>6,159,526</u>
NONCURRENT LIABILITIES:			
Advances from federal sponsors		639,434	639,434
Compensated absences	76,701	1,343,768	1,420,469
Debt obligation due Commission	486,878	2,201,570	2,688,448
Bonds payable		32,599,850	32,599,850
Capital lease obligation		211,184	211,184
Total noncurrent liabilities	<u>563,579</u>	<u>36,995,806</u>	<u>37,559,385</u>
Total liabilities	<u>1,045,631</u>	<u>42,673,280</u>	<u>43,718,911</u>
NET ASSETS:			
Invested in capital assets—net of related debt	<u>220,660</u>	<u>45,023,577</u>	<u>45,244,237</u>
Restricted for—			
Expendable:			
Loans		98,953	98,953
Debt service		528,534	528,534
Other restricted	40,256	48,288	88,544
Capital projects		264,075	264,075
Total expendable	<u>40,256</u>	<u>939,850</u>	<u>980,106</u>
Unrestricted	<u>1,189,586</u>	<u>7,617,471</u>	<u>8,807,057</u>
Total net assets	<u>1,450,502</u>	<u>53,580,898</u>	<u>55,031,400</u>
TOTAL	<u>\$ 2,496,133</u>	<u>\$ 96,254,178</u>	<u>\$ 98,750,311</u>

SHEPHERD UNIVERSITY

**SUPPLEMENTARY COMPONENT FINANCIAL DATA
SCHEDULE OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005**

	Community & Technical College	Four-Year & Other	Eliminations	Total Institution
OPERATING REVENUES:				
Student tuition and fees, net of scholarship allowance of \$3,699,534 and \$328,995	\$ 1,460,110	\$ 11,931,912	\$ -	\$ 13,392,022
Contracts and grants:				
Federal	644,433	2,548,920		3,193,353
State	563,943	2,111,683		2,675,626
Private	45,670	745,704		791,374
Interest on student loans receivable		13,386		13,386
Sales and services of educational activities		39,858		39,858
Auxillary enterprise revenue, net of scholarship of \$47,470		10,180,484		10,180,484
Community and technical college contract revenue		1,510,811	(1,510,811)	
Other operating revenues	<u>90,697</u>	<u>666,543</u>	<u>(1,000)</u>	<u>756,240</u>
Total operating revenues	<u>2,804,853</u>	<u>29,749,301</u>	<u>(1,511,811)</u>	<u>31,042,343</u>
OPERATING EXPENSES:				
Salaries and wages	1,416,038	16,590,353		18,006,391
Benefits	401,937	3,917,922		4,319,859
Supplies and other services	2,218,206	9,440,485	(1,499,562)	10,159,129
Utilities	1,281	1,448,592		1,449,873
Student financial aid—scholarships and fellowships	538,082	1,695,472		2,233,554
Depreciation	256,210	3,158,083	(12,249)	3,402,044
Fees assessed by the Commission for operations	<u>17,661</u>	<u>246,771</u>		<u>264,432</u>
Total operating expenses	<u>4,849,415</u>	<u>36,497,678</u>	<u>(1,511,811)</u>	<u>39,835,282</u>
OPERATING LOSS	<u>(2,044,562)</u>	<u>(6,748,377)</u>	<u>-</u>	<u>(8,792,939)</u>

(Continued)

SHEPHERD UNIVERSITY

SUPPLEMENTARY COMPONENT FINANCIAL DATA SCHEDULE OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS INFORMATION FOR THE YEAR ENDED JUNE 30, 2005

	Community & Technical College	Four-Year & Other	Eliminations	Total Institution
NONOPERATING REVENUES (EXPENSES):				
State appropriations	\$ 2,307,838	\$ 9,242,292	\$ -	\$ 11,550,130
Investment income	28,998	370,233		399,231
Interest on indebtedness		(230,684)		(230,684)
Fees assessed by the Commission		(266,321)		(266,321)
Loss on disposal of equipment	(3,042)	(61,351)		(64,393)
	<u>2,333,794</u>	<u>9,054,169</u>	<u>-</u>	<u>11,387,963</u>
Net nonoperating revenues				
	<u>2,333,794</u>	<u>9,054,169</u>	<u>-</u>	<u>11,387,963</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	289,232	2,305,792	-	2,595,024
TRANSFER OF NET ASSETS TO COMMUNITY AND TECHNICAL COLLEGE	1,161,270	(1,161,270)		
CAPITAL GRANTS AND GIFTS		1,609,740		1,609,740
INCREASE IN NET ASSETS	1,450,502	2,754,262	-	4,204,764
NET ASSETS—Beginning of year		50,826,636		50,826,636
NET ASSETS—End of year	<u>\$ 1,450,502</u>	<u>\$ 53,580,898</u>	<u>\$ -</u>	<u>\$ 55,031,400</u>

(Concluded)

SHEPHERD UNIVERSITY

SCHEDULE OF CASH FLOW INFORMATION FOR THE YEAR ENDED JUNE 30, 2005

	Community & Technical College	Four-Year and Other	Total Institution
CASH FLOWS FROM OPERATING ACTIVITIES:			
Student tuition and fees	\$ 1,464,066	\$ 12,049,019	\$ 13,513,085
Contracts and grants	1,379,807	4,203,434	5,583,241
Payments to and on behalf of employees	(1,664,770)	(20,484,175)	(22,148,945)
Payments to suppliers	(2,096,823)	(7,865,733)	(9,962,556)
Payments to utilities	(1,119)	(1,394,393)	(1,395,512)
Payments for scholarships and fellowships	(538,082)	(1,697,872)	(2,235,954)
Loans issued to students		(101,409)	(101,409)
Collection of loans to students		152,302	152,302
Sales and service of educational activities		39,858	39,858
Auxiliary enterprise charges		10,101,273	10,101,273
Fees retained by Commission	(17,661)	(350,449)	(368,110)
Other receipts—net	90,782	557,085	647,867
Net cash used in operating activities	<u>(1,383,800)</u>	<u>(4,791,060)</u>	<u>(6,174,860)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
State appropriations	2,305,188	9,244,942	11,550,130
Federal student loan program—direct lending receipts		11,625,020	11,625,020
Federal student loan program—direct lending payments		<u>(11,625,020)</u>	<u>(11,625,020)</u>
Net cash provided by noncapital financing activities	<u>2,305,188</u>	<u>9,244,942</u>	<u>11,550,130</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:			
Capital grants and gifts received		1,609,740	1,609,740
Proceeds from capital debt		29,284,508	29,284,508
Transfer to/from Community and Technical College	1,161,270	(1,161,270)	
Bond issuance costs		(499,623)	(499,623)
Interest paid on capital debt and leases		(252,889)	(252,889)
Purchases of capital assets	(1,033,671)	(6,060,036)	(7,093,707)
Transfer of Commission Debt to Community and Technical College	570,106	(570,106)	
Principal paid on capital debt and leases		(2,624,055)	(2,624,055)
Increase in noncurrent cash and cash equivalents		(3,197,559)	(3,197,559)
Debt service assessed by the Commission for debt service and reserves		<u>(266,321)</u>	<u>(266,321)</u>
Net cash provided by capital financing activities	<u>697,705</u>	<u>16,262,389</u>	<u>16,960,094</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of investments		(19,863,267)	(19,863,267)
Interest on investments	25,021	316,200	341,221
Net cash provided by (used in) investing activities	<u>25,021</u>	<u>(19,547,067)</u>	<u>(19,522,046)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	1,644,114	1,169,204	2,813,318
CASH AND CASH EQUIVALENTS—Beginning of year		<u>9,651,536</u>	<u>9,651,536</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 1,644,114</u>	<u>\$ 10,820,740</u>	<u>\$ 12,464,854</u>

(Continued)

SHEPHERD UNIVERSITY

SCHEDULE OF CASH FLOW INFORMATION FOR THE YEAR ENDED JUNE 30, 2005

	Community & Technical College	Four-Year and Other	Total Institution
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:			
Operating loss	\$(2,044,479)	\$(6,748,460)	\$(8,792,939)
Adjustments to reconcile net operating loss to net cash used in operating activities:			
Depreciation expense	256,210	3,145,834	3,402,044
Changes in assets and liabilities:			
Accounts receivables—net	(54,625)	65,169	10,544
Loans to students—net		50,894	50,894
Due from the Commission		(969,287)	(969,287)
Due from other State agencies		925	925
Prepaid expenses		7,058	7,058
Inventories		(76,312)	(76,312)
Accounts payable	116,954	242,142	359,096
Accrued liabilities	40,335	18,667	59,002
Compensated absences	112,870	(2,821)	110,049
Due to the Commission		(103,678)	(103,678)
Due to other State agencies	4,593	(37,644)	(33,051)
Deferred revenue	184,342	(276,577)	(92,235)
Deposits held in custody for others		15,715	15,715
Advances from Federal Sponsors		(122,685)	(122,685)
	<u> </u>	<u> </u>	<u> </u>
NET CASH USED IN OPERATING ACTIVITIES	<u><u>\$(1,383,800)</u></u>	<u><u>\$(4,791,060)</u></u>	<u><u>\$(6,174,860)</u></u>
NONCASH TRANSACTIONS:			
Construction in progress additions in accounts payable	<u><u>\$ -</u></u>	<u><u>\$ 1,668,969</u></u>	<u><u>\$ 1,668,969</u></u>

(Concluded)

SHEPHERD UNIVERSITY

**SUPPLEMENTARY COMPONENT FINANCIAL DATA
NATURAL CLASSIFICATIONS WITHIN FUNCTIONAL CLASSIFICATIONS INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005**

	Community & Technical College							
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Fees Assessed by the Commission	Total
Instruction	\$ 943,106	\$192,385	\$ 916,851	\$ 436	\$100,366	\$ -	\$ -	\$2,153,144
Public service	4,405	337	46,224					50,966
Academic support	219,056	49,208	288,459					556,723
Student services			221,880					221,880
General institutional support	249,471	160,007	508,554	845				918,877
Operations and maintenance of plant			236,238					236,238
Student financial aid					437,716			437,716
Depreciation						256,210		256,210
Other							17,661	17,661
Total	<u>\$1,416,038</u>	<u>\$401,937</u>	<u>\$2,218,206</u>	<u>\$1,281</u>	<u>\$538,082</u>	<u>\$256,210</u>	<u>\$17,661</u>	<u>\$4,849,415</u>

SHEPHERD UNIVERSITY

**SUPPLEMENTARY COMPONENT FINANCIAL DATA
NATURAL CLASSIFICATIONS WITHIN FUNCTIONAL CLASSIFICATIONS INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005**

	Four Year and Other							Total
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Fees Assessed by the Commission	
Instruction	\$ 7,760,084	\$1,595,283	\$ 826,728	\$ -	\$ 36,266	\$ -	\$ -	\$10,218,361
Public service	118,828	16,790	107,644	452				243,714
Academic support	1,349,881	283,234	536,596	1,037	2,565			2,173,313
Student services	1,675,035	358,010	1,128,479	724	24,150			3,186,398
General institutional support	1,880,305	607,530	1,197,398	4,460	49,425			3,739,118
Operations and maintenance of plant	756,588	223,227	1,108,527	852,878				2,941,220
Student financial aid			1,156		1,555,242			1,556,398
Auxiliary enterprises	3,049,632	833,848	4,533,957	589,041	27,824			9,034,302
Depreciation						3,158,083		3,158,083
Other							246,771	246,771
Total	<u>\$16,590,353</u>	<u>\$3,917,922</u>	<u>\$9,440,485</u>	<u>\$1,448,592</u>	<u>\$1,695,472</u>	<u>\$ 3,158,083</u>	<u>\$246,771</u>	<u>\$36,497,678</u>

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

To the Governing Board of
Shepherd University:

We have audited the financial statements of Shepherd University (the "University") as of and for the years ended June 30, 2005 and 2004, and have issued our report thereon dated October 14, 2005, which states reliance on other auditors for the discretely presented component unit. We conducted our audits of the University in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The audit of the University's discretely presented component unit was audited in accordance with generally accepted auditing standards but not in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States.

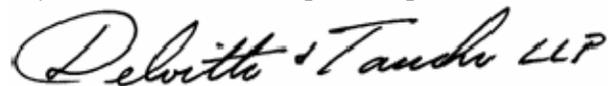
Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

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



October 14, 2005