Shepherd University

Financial Statements as of and for the Years Ended June 30, 2007 and 2006, and Independent Auditors' Reports

SHEPHERD UNIVERSITY

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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, 2007 and 2006, and the related statements of revenues, expenses, and changes in net assets, and of cash flows for the years then ended. These financial statements are the responsibility of the management of the University. Our responsibility is to express an opinion on the respective financial statements based on our audits. We did not audit the financial statements of The Shepherd University Foundation, Incorporated (the "Foundation"), a discretely presented component unit of the University. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the discretely presented financial statements of the Foundation, is based solely on the report of such other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. The Foundation's financial statements, which were audited by other auditors, were not audited in accordance with *Government Auditing Standards.* Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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, 2007 and 2006, 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 10 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the University's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2007, 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 considered in assessing the results of our audit.

Deloitte & Touche LLP

October 19, 2007

Shepherd University
Management Discussion and Analysis (Unaudited)
Fiscal Years 2007 and 2006

About Shepherd University

Shepherd University (the "University") is a state-supported institution within the West Virginia system of Higher Education Policy. Until July 1, 2005, the University operated two components, the baccalaureate component and the community and technical college component. The community college component became the Community and Technical College of Shepherd at the beginning of fiscal year 2006. It was subsequently renamed the Blue Ridge Community and Technical College. The new institution and the community college component were governed by the West Virginia Council for Community and Technical College Education in fiscal years 2007, 2006 and 2005. The University consists of the former baccalaureate component of the institution. This institution was governed by the West Virginia Higher Education Policy Commission in fiscal years 2007, 2006 and 2005.

The University was founded in 1871. It offers Bachelor of Arts, Bachelor of Fine Arts, and Bachelor of Science degrees in a wide range of fields, encompassing the liberal arts, business administration, teacher education, the social and natural sciences, and other career oriented areas. Graduate programs include the Master of Arts in Teaching, Master of Arts in Curriculum and Instruction, Master of Business Administration, The Master of Arts in College Student Development and Administration, and the Master of Music, Music Education are also offered.

Overview of the Financial Statements and Financial Analysis

This discussion will emphasize significant changes reflected in the fiscal year 2007 data compared to the financial statements presented for fiscal year 2006. 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, 2007, and 2006. The Statement of Net Assets is a point-of-time financial statement. The Statement of Net Assets presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities). The difference between current and noncurrent assets and liabilities will be discussed in the footnotes to the financial statements.

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

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the University's equity in property, plant, and equipment owned by the University. The second asset category is restricted net assets, which is divided into two categories net of depreciation and related debt, nonexpendable and expendable. The University does not currently have nonexpendable restricted net assets since all funds of this nature would be directed to the Shepherd University Foundation. The corpus of nonexpendable restricted resources is available only for investment purposes. Expendable restricted net assets are available for expenditure by the 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.

Condensed Statements of Net Assets
(In thousands of dollars)

	June30		
	FY 2007	FY 2006	FY 2005
Assets:			
Cash	$ 17,004	$ 13,522	$ 12,465
Other current Assets	3,613	1,406	2,145
Noncurrent Assets	99,723	86,284	84,140
Total Assets	$ 120,340	$ 101,212	$ 98,750
Liabilities:			
Current Liabilities	8,902	8,105	6,130
Noncurrent Liabilities	35,904	37,285	37,589
Total Liabilities	$ 44,806	$ 45,390	$ 43,719
Net Assets	$ 75,534	$ 55,822	$ 55,031

Assets:

- Current cash increased $3.5 million in fiscal year 2007. The University realized cash savings from vacant positions and the conservation of resources for future expenditures. In addition, capitalized interest proceeds from the 2005 bonds were used to pay part of the related interest expense.
- The amount due from the Commission increased $1,103,000. The amount owed by the Higher Education Policy Commission for a capital project funded by the 2004 Higher Education Policy Commission Bonds increased $922,000. The amounts owed for this project at June 30, 2006 was $79,000.
- Accounts Receivable increased $1.1 million. The Department of Housing and Urban Development owed the University $1.25 million. Receivables from other grants and contracts declined from the previous fiscal year.
- Restricted cash and cash equivalents decreased $1.2 million. The University expended bond proceeds for the completion of the residence halls and infrastructure projects.
- Investments decreased $4.5 million. Investments were sold to pay for the construction of the new residence halls.
- Capital assets increased $19.1 million. This account increased because $21.3 million was expended for construction projects and $1.7 million was expended for equipment and library books. The increases were partially offset by depreciation in the amount of $3.8 million for fiscal year 2007.

Liabilities:

- Accounts payable decreased $327,000. Accounts payable related for supplies and equipment increased $675,000 because furniture and equipment was purchase for Erma Ora Byrd Hall in June. Accounts payable for utilities increased $164,000 because more payments are made through University purchase cards. Accounts payable for construction decreased $512,000 from fiscal year 2006, as accounts payable related to capital projects as well as repair and renovation projects decreased from the previous year.
- Accrued liabilities increased $168,000. Accrued payroll increased because salary rates were higher than in fiscal year 2006 and more employees are paid in arrears. Accrued liabilities had increased in fiscal year 2006 because faculty received the annual increment payment for the first time.
- Deferred revenue decreased $135,000. Deferred revenues related to grants declined $56,000 because the amount of cash received in advance for grant expenditures decreased. Deferred revenues related to summer school tuition and fees declined $74,000.
- The current portion of bonds payable increased $440,000 because the first principal payment for the 2005 Bonds will be paid during fiscal year 2008.
- The noncurrent portion of the compensated absence liability decreased $165,000 because the insurance rates for retirees declined.
- The noncurrent portions of the debt obligation due the Commission, bonds payable and capital lease obligations declined in accordance with their related payment schedules.

Statement of Revenues, Expenses, and Changes in Net Assets

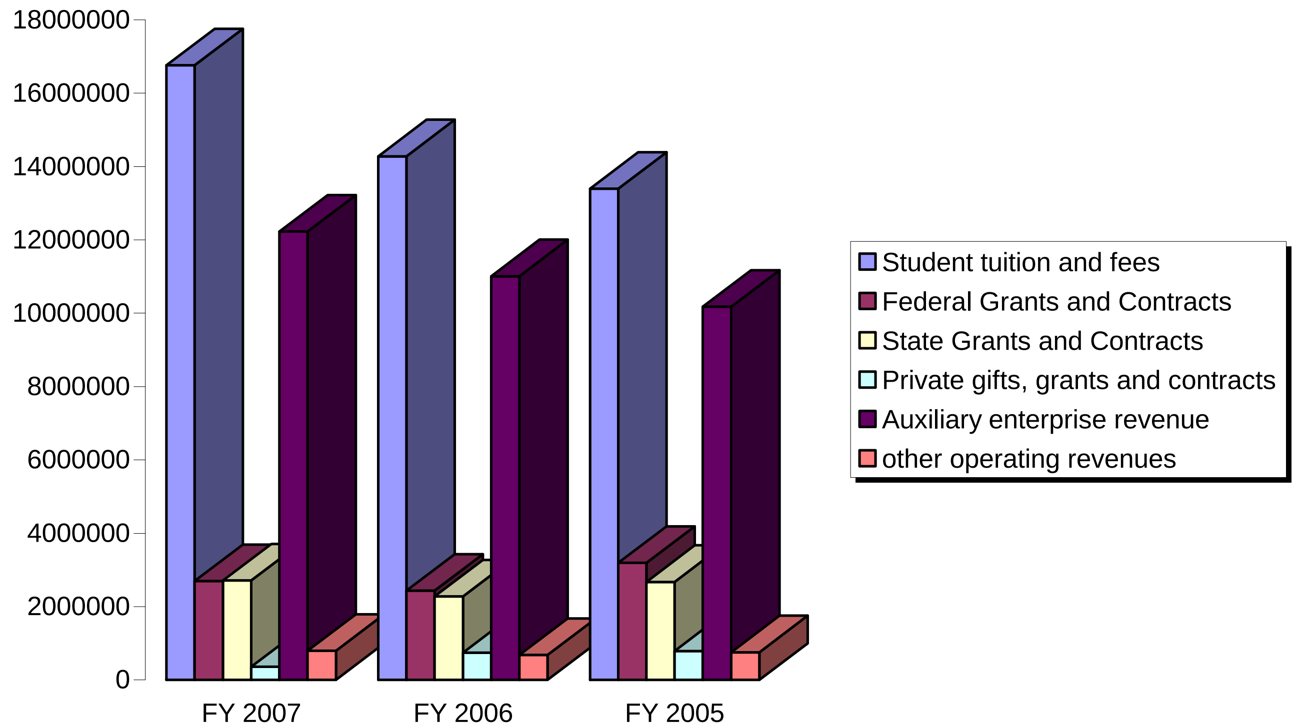
Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the institution, both operating and nonoperating, and the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

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

	FY 2007	FY 2006	FY 2005
Operating Revenues	$ 36,093	$ 32,134	$ 31,042
Operating Expenses	43,006	40,792	39,835
Operating Loss	(6,913)	(8,658)	(8,793)
Nonoperating Revenues – Net	10,312	9,305	11,388
Income Before Other Revenues, Expenses, Gains, or Losses	3,399	647	2,595
Capital and Bond Proceeds From Commission	8,575	318	877
Capital Gifts and Grants	7,738	1,277	732
Increase in Net Assets Before Transfers	19,712	2,242	4,204
Transfer of Net Assets to the Community and Technical College of Shepherd	--	(1,451)	--
Increase in Net Assets	19.712	791	4,204
Net Assets – Beginning of Year	55,822	55,031	50,827
Net Assets – End of Year	$ 75,534	$ 55,822	$ 55,031

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

Operating Revenues

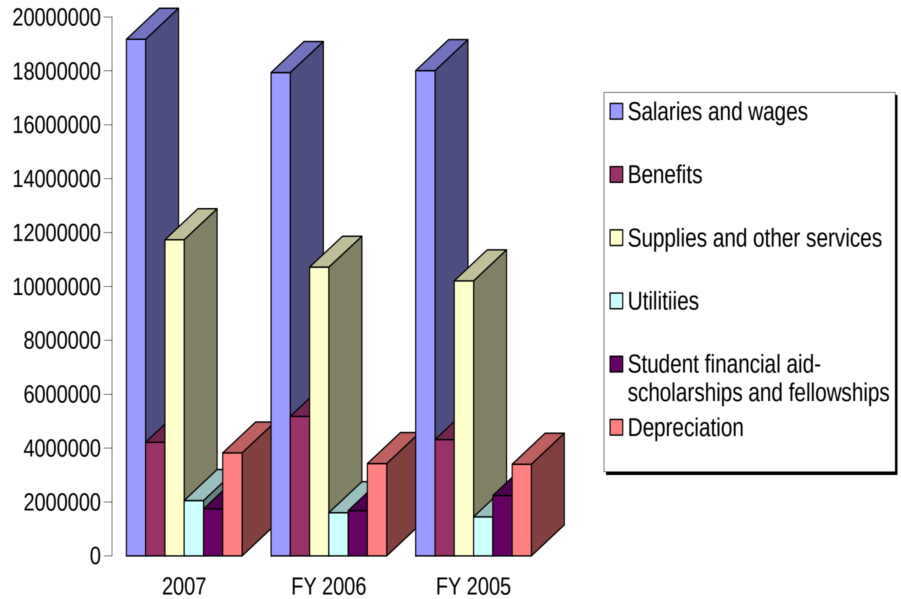


Operating Revenues:

- Gross student tuition and fees increased by $3.3 million and $1.3 million for a 17.5% and 13.0% overall increase for the years ended June 30, 2007 and 2006 respectively. The 2007 increase is attributed to a combination of factors including: 1) a 6.28% increase in non-auxiliary tuition and fees rates for undergraduate resident students and a 7.54% increase for nonresident students, 2) the number of full-time equivalent (FTE) enrollment resident students increased 4.11%, and 3) most of the new students were not West Virginia residents and paid the out-of-state tuition and fee rate. The 2006 increase is attributed to two primary factors; 1) a 10.7% increase in non-auxiliary tuition and fee rates for undergraduate resident students and a 15% increase for nonresident students, and 2) the number of FTE enrollment resident students increased 4.79%.
- Federal Contracts increased $261,000 in fiscal year 2007. The University received $192,000 from a HUD grant for the building maintenance needs of the Center for Legislative Studies. Federal Grants and Contracts decreased $755,000 in fiscal year 2006.
- State grants and contracts increased $436,000 in fiscal year 2007. Promise Scholarship and HEAPS scholarships increased from fiscal year 2006.
- Gross sales and services of auxiliary enterprises increased by $1.2 million for an 11% increase in fiscal year 2007 over fiscal year 2006. The new residence halls generated $1.3 million in room rent revenues. Room rental revenues for the other residence halls increased $59,000. Meal plan revenues declined $123,000. Fiscal year 2006 gross sales and services of auxiliary enterprises increased by $903,000 for an 8.1% increase over fiscal year 2005.

- Other revenues increased by $115,000. The main sources of this increase was a $44,000 increase in parking registration and fines revenues and the collection of an additional $18,000 in forfeited enrollment deposits,

Operating Expenses



Operating Expenses:

- The total cost of benefits decreased by $965,000 in fiscal year 2007 and had increased by $857,000 for fiscal year 2006 over fiscal year 2005. The health and life insurance components of the compensated absences liability decreased by $192,000 in fiscal year 2007 because the insurance rates for retirees declined.
- Supplies and other services increased $1 million. This increase was primarily attributed to the University purchasing furniture and equipment for the new residence halls and Erma Ora Byrd Hall, which were less than the University's capitalization threshold on an individual asset basis.
- Utilities expenses increased $453,000 in fiscal year 2007 over fiscal year 2006. The University opened the new residence halls and utility rates increased. The increase in fiscal year 2006 over fiscal year 2005 was only $155,000.
- Depreciation increased $393,000. Depreciation for the new residence halls and infrastructure was recorded in fiscal year 2007. Depreciation was relatively even between fiscal year 2007 and fiscal year 2006.

Nonoperating Revenues (Expenses)

- Nonoperating revenues from State appropriations increased $1.5 million in fiscal year 2007. This increase included $1.1 million to defray costs for the construction and future debt service of a new wellness center.
- Interest on indebtedness increased $628,000. The increase was related to the additional debt service for the new residence halls.
- Gifts increased $187,000 and were primarily from the Shepherd University Foundation in both 2007 and 2006.

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.

Condensed Statements of Cash Flows
(In thousands of dollars)

	FY 2007	FY 2006	FY 2005
Cash provided by (used in):			
Operating activities	($4,970)	($ 2,991)	($ 5,727)
Noncapital financing activities	11,074	7,586	11,550
Capital and related financing activities	(8,035)	(19,597)	16,512
Investing activities	5,413	16,059	(19,522)
Increase in Cash	3,482	1,057	2,813
Cash, beginning of year	13,522	12,465	9,652
Cash, end of year	$ 17,004	$ 13,522	$12,465

Capital Assets

The Following construction projects were completed in fiscal year 2007:

New Residence Hall Complex	$17,586,510
Infrastructure	6,446,893

The University received approval for a $12.5 million allocation from the 2005 Higher Education Policy Commission debt issuance to construct additional instructional space, of which $8.4 million, $317,000 and $877,000 were earned respectively in fiscal years 2007, 2006 and 2005. The University still has approximately $2.9 million available from the original approved allocation. In addition, $10 million was awarded from the U.S. Department of Health and Human Services to construct the Erma Ora Byrd Hall. The University expended $7.7 million and $1.3 million for construction of Erma Ora Byrd Hall during fiscal years 2007 and 2006, respectively, for the construction of Erma Ora Byrd Hall.

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

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 the University, including certain roads, water and sewer system expansion, extensions and improvements and other infrastructure projects on the West Campus of the University and other capital renovations and improvements to the University's campus, and to pay the costs of issuance of the Infrastructure Bonds and related costs. 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.

In May 2005, $22,925,000 of Revenue Bonds (Shepherd University Residence Facilities Projects) Series 2006 (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 2006 Bonds to January 1, 2007; refund the Issuer's $1,865,000 University Facilities Revenue Notes, Series 2005A and pay the costs of issuance of the Series 2006 Residence Facility Bonds.

Economic Outlook

The economy in West Virginia is growing. The total State tax collections were 102.61% of the amount projected for fiscal year 2007. 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, 2007 AND 2006

	2007	2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 17,004,213	$ 13,522,194
Appropriations due from Primary Government		60,009
Due from the Commission	1,228,332	125,706
Due from other State agencies	119,347	84,135
Accounts receivable — net	1,623,931	534,285
Loans to students — current portion	138,353	158,279
Inventories	502,525	443,770
Total current assets	20,616,701	14,928,378
NONCURRENT ASSETS:		
Cash and cash equivalents	279,896	1,500,917
Investments	389,997	4,853,229
Loans to students, net of allowance of $302,471 and $306,878 in 2007 and 2006, respectively	315,763	293,408
Bond issuance costs — net	607,421	626,083
Capital assets — net	98,130,250	79,010,402
Total noncurrent assets	99,723,327	86,284,039
TOTAL	$ 120,340,028	$ 101,212,417

(Continued)

SHEPHERD UNIVERSITY

STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2007 AND 2006

	2007	2006
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	$ 5,104,079	$ 4,777,465
Accrued liabilities	1,080,281	912,327
Due to the Commission	8	6,551
Due to other State agencies	5,692	40,649
Compensated absences — current portion	715,329	681,021
Debt obligation due Commission — current portion	384,300	381,118
Deferred revenue	673,727	809,044
Deposits	195,944	195,655
Bonds payable — current portion	680,000	240,000
Capital lease obligation — current portion	63,117	61,190
Total current liabilities	8,902,477	8,105,020
NONCURRENT LIABILITIES:		
Advances from federal sponsors	572,626	634,586
Compensated absences	2,153,370	2,318,473
Debt obligation due Commission	1,436,153	1,820,453
Bonds payable	31,656,602	32,363,226
Capital lease obligation	85,099	148,216
Total noncurrent liabilities	35,903,850	37,284,954
Total liabilities	44,806,327	45,389,974
NET ASSETS:		
Invested in capital assets — net of related debt	63,048,547	46,283,989
Restricted for — expendable:		
Loans	97,172	133,865
Debt service	1,020,769	1,080,076
Other restricted	63,942	57,141
Capital projects	1,268,572	299,662
Total expendable	2,450,455	1,570,744
Unrestricted	10,034,699	7,967,710
Total net assets	75,533,701	55,822,443
TOTAL	$ 120,340,028	$ 101,212,417

See notes to financial statements. (Concluded)

THE SHEPHERD UNIVERSITY FOUNDATION, INCORPORATED
A COMPONENT UNIT OF SHEPHERD UNIVERSITY
STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2007 AND 2006

	2007	2006
ASSETS		
CASH AND CASH EQUIVALENTS	$ 1,130,682	$ 976,359
PLEDGES RECEIVABLE	481,283	46,330
CONTRIBUTIONS RECEIVABLE	40,898	3,620
ACCRUED INTEREST RECEIVABLE	114,177	109,093
PREPAID EXPENSES	5,103	4,499
INVESTMENTS	21,208,550	19,212,979
EQUIPMENT — Net	8,384	10,905
TOTAL	$ 22,989,077	$ 20,363,785
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	$ 15,888	$ 6,326
Custodial liabilities	2,777,615	2,560,306
Gift annuities payable	176,493	114,197
Total liabilities	2,969,996	2,680,829
NET ASSETS:		
Unrestricted	1,086,138	312,512
Temporarily restricted	1,378,550	939,773
Permanently restricted	17,554,393	16,430,671
Total net assets	20,019,081	17,682,956
TOTAL	$ 22,989,077	$ 20,363,785

See notes to financial statements.

SHEPHERD UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
OPERATING REVENUES:		
Student tuition and fees, net of scholarship allowance of $5,252,362 and $4,460,692 in 2007 and 2006, respectively	$ 16,758,957	$ 14,278,925
Contracts and grants:		
Federal	2,699,256	2,437,949
State	2,715,990	2,280,338
Private	357,055	249,860
Interest on student loans receivable	9,827	13,570
Sales and services of educational activities	43,640	41,970
Auxiliary enterprise revenue, net of scholarship allowance of $117,724 and $73,382 in 2007 and 2006, respectively	12,229,062	11,010,118
Service contract revenue — Blue Ridge CTC	483,416	1,141,063
Other operating revenues	795,487	680,702
Total operating revenues	36,092,690	32,134,495
OPERATING EXPENSES:		
Salaries and wages	19,171,809	17,937,458
Benefits	4,212,205	5,176,789
Supplies and other services	11,734,651	10,714,847
Utilities	2,057,886	1,604,491
Student financial aid — scholarships and fellowships	1,744,441	1,677,983
Depreciation	3,819,848	3,427,276
Fees assessed by the Commission for operations	265,251	253,903
Total operating expenses	43,006,091	40,792,747
OPERATING LOSS	(6,913,401)	(8,658,252)

(Continued)

SHEPHERD UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
NONOPERATING REVENUES (EXPENSES):		
State appropriations	$ 10,335,074	$ 8,821,096
Investment income	1,011,595	1,092,712
Interest on indebtedness	(1,473,266)	(845,155)
Fees assessed by the Commission for debt service	(189,200)	(206,406)
Gifts	679,356	492,202
Loss on disposal of equipment	(51,262)	(48,974)
Net nonoperating revenues	10,312,297	9,305,475
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	3,398,896	647,223
CAPITAL AND BOND PROCEEDS FROM COMMISSION	8,574,980	317,404
CAPITAL GRANTS AND GIFTS	7,737,382	1,276,918
INCREASE IN NET ASSETS BEFORE TRANSFER	19,711,258	2,241,545
TRANSFER OF NET ASSETS TO THE COMMUNITY AND TECHNICAL COLLEGE OF SHEPHERD		(1,450,502)
INCREASE IN NET ASSETS	19,711,258	791,043
NET ASSETS — Beginning of year	55,822,443	55,031,400
NET ASSETS — End of year	$ 75,533,701	$ 55,822,443

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, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT:				
Cash contributions	$ -	$ 936,776	$ 965,717	$ 1,902,493
Stock contributions		27,739	104,817	132,556
Other noncash contributions		13,334		13,334
Other revenue	22,364	7,695		30,059
Interest and dividends	261,448	473,930	17,813	753,191
Net realized and unrealized (losses) on investments	906,892			906,892
Net assets released from restrictions	985,322	(1,020,697)	35,375	-
Total revenue and other support	2,176,026	438,777	1,123,722	3,738,525
EXPENSES:				
Program services:				
Scholarships and awards	879,832			879,832
College support	132,150			132,150
General and administrative:				
Salaries	192,463			192,463
Investment management fees	58,141			58,141
Printing and reproduction costs	15,757			15,757
Payroll taxes and benefits	40,201			40,201
Depreciation	6,526			6,526
Administrative expense	3,958			3,958
Rent	12,600			12,600
Office supplies and postage	3,652			3,652
Insurance	7,748			7,748
Changes in gift annuities	11,567			11,567
Professional fees	14,879			14,879
Staff development				-
Development	17,437			17,437
Telephone	1,729			1,729
Technology	3,185			3,185
Miscellaneous	575			575
Total expenses	1,402,400	-	-	1,402,400
INCREASE IN NET ASSETS	773,626	438,777	1,123,722	2,336,125
NET ASSETS — Beginning of year	312,512	939,773	16,430,671	17,682,956
NET ASSETS — End of year	$1,086,138	$1,378,550	$17,554,393	$20,019,081

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, 2006

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

See notes to financial statements.

SHEPHERD UNIVERSITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	$ 16,576,527	$ 14,862,002
Contracts and grants	3,695,142	4,944,649
Payments to and on behalf of employees	(23,342,577)	(21,850,321)
Payments to suppliers	(11,496,543)	(10,371,182)
Payments to utilities	(1,893,906)	(1,547,944)
Payments for scholarships and fellowships	(1,744,441)	(1,724,987)
Loans issued to students	(119,909)	(119,322)
Collection of loans to students	117,480	168,893
Sales and service of educational activities	43,640	41,970
Auxiliary enterprise charges	12,223,852	11,082,945
Fees retained by Commission	(271,794)	(260,602)
Other receipts — net	1,242,822	1,782,728
Net cash used in operating activities	(4,969,707)	(2,991,171)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	10,395,083	8,738,412
Transfer to The Community and Technical College of Shepherd		(1,644,114)
Gifts	679,356	492,202
Federal student loan program — direct lending receipts	12,016,740	10,573,276
Federal student loan program — direct lending payments	(12,016,740)	(10,573,276)
Net cash provided by noncapital financing activities	11,074,439	7,586,500
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Capital and bond proceeds from commission	7,495,586	633,787
Capital grants and gifts received	8,816,775	1,276,918
Interest paid on capital debt and leases	(1,477,547)	(1,497,707)
Purchases of capital assets	(23,192,743)	(22,089,571)
Principal paid on capital debt and leases	(708,932)	(695,300)
Decrease (increase) in noncurrent cash and cash equivalents	1,221,021	2,981,506
Debt service assessed by the Commission for debt service and reserves	(189,200)	(206,406)
Net cash used in capital financing activities	(8,035,040)	(19,596,773)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales (purchases) of investments	4,463,232	15,010,038
Interest on investments	949,095	1,048,746
Net cash provided by investing activities	5,412,327	16,058,784
INCREASE IN CASH AND CASH EQUIVALENTS	3,482,019	1,057,340
CASH AND CASH EQUIVALENTS — Beginning of year	13,522,194	12,464,854
CASH AND CASH EQUIVALENTS — End of year	$ 17,004,213	$ 13,522,194

(Continued)

SHEPHERD UNIVERSITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (6,913,401)	$ (8,658,252)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	3,819,848	3,427,276
Amortization of bond issuance costs	18,663	29,591
Changes in assets and liabilities:		
Appropriation from Primary Government		(60,009)
Accounts receivables — net	(1,089,646)	(90,343)
Loans to students — net	(2,429)	49,571
Due from the Commission	(1,040,125)	575,581
Due from other State agencies	(35,212)	11,050
Prepaid expenses		19,561
Inventories	(58,755)	13,566
Accounts payable	528,397	336,501
Accrued liabilities	172,237	248,763
Compensated absences	(130,797)	995,604
Due to the Commission	(6,543)	(2,106)
Due to other State agencies	(34,957)	15,958
Deferred revenue	(135,317)	85,913
Deposits held in custody for others	290	15,452
Advances from Federal Sponsors	(61,960)	(4,848)
NET CASH USED IN OPERATING ACTIVITIES	$ (4,969,707)	$ (2,991,171)
NONCASH TRANSACTIONS — Capital additions in accounts payable	$ 2,712,979	$ 3,488,078
ASSETS AND LIABILITIES TRANSFERRED TO THE COMMUNITY AND TECHNICAL COLLEGE OF SHEPHERD:		
Due from the Commission		$ 3,977
Amount due from the State		1,200
Accounts receivable — net		54,625
Capital assets		790,766
Accounts payable		(133,385)
Accrued liabilities		(40,335)
Due to other State agencies		(3,142)
Compensated absences		(112,870)
Debt obligation due Commission		(570,106)
Deferred revenue		(184,342)
		$ (193,612)

See notes to financial statements. (Concluded)

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 University under its jurisdiction, the duty to develop a master plan for the institution, the power to prescribe the specific functions and University's budget request, the duty to review at least every five years all academic programs offered at the University, and the power to fix tuition and other fees for the different classes or categories of students enrolled at its institution.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

As of July 1, 2003, the University adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, as an amendment of GASB Statement No. 14. As a result, the audited financial statements of The Shepherd University Foundation, Incorporated (the "Foundation") are discretely presented here with the University's financial statements for the fiscal years ended June 30, 2007 and 2006. The Foundation is a private nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's audited financial information as it is presented herein (see also Notes 13 and 17).

Financial Statement Presentation — GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities, as amended by GASB Statements No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus and No. 38, Certain Financial Statement Note Disclosures*, establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a combined basis to focus on the University as a whole. GASB Statement No. 35 reports equity as "net assets" rather than "fund balance." Net assets are classified into four categories according to external donor restrictions or availability of assets for satisfaction of the University's 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, 2007 or 2006.

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 Board of Treasury Investments ("BTI"). These funds are transferred to the BTI and the BTI is directed by the State Treasurer to invest the funds in specific external investment pools in accordance with West Virginia Code, policies set by the BTI, and by provisions of bond indentures and trust agreements, when applicable. Balances in the investment pools are recorded at fair value or amortized cost which approximates fair value. Fair value is determined by a third-party pricing service based on asset portfolio pricing models and other sources, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The BTI 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 are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying financial statements.

The BTI 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. 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 BTI's investment operations pool can be found in its annual report. A copy of those annual reports can be obtained from the following address: 1900 Kanawha Blvd., E. Room E-122, Charleston, WV 25305 or http://wvbti.com.

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

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

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

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

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

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

Capital Assets — Capital assets include property, plant and equipment, books and materials that are part of a catalogued library, and infrastructure assets. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Interest on related borrowing, net of interest earnings on invested proceeds, capitalized during the period of construction was $18,852 and $674,192 for the years ended June 30, 2007 and 2006, respectively. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and infrastructure, 20 years for land improvements and library books, and 3 to 10 years for furniture and equipment. The University capitalizes all purchases of library books and uses a capitalization threshold of $1,000 for other capital assets. During fiscal year 2006, the University implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairments of Capital Assets and for Insurance Recoveries* ("GASB No. 42"). The financial statements reflect all adjustments required by GASB No. 42 as of June 30, 2007.

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 tuition, football ticket sales, orientation fees, room, and board. Financial aid and other deposits are separately classified as deposits.

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

The University's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1½ sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. For employees hired after 1988, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired July 1, 2001, or later will no longer receive sick leave credit toward insurance premiums when they retire.

Certain faculty employees (generally those with less than a 12-month contract) earn a similar extended health or life insurance coverage retirement benefit based on years of service. Generally 3⅓ years of teaching service extend health insurance for one year of single coverage and five years extend health insurance for one year of family coverage.

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

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

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

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

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

Classification of Revenues — The University has classified its revenues according to the following criteria:

Operating Revenues — Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state, local, and nongovernmental grants and contracts, and (4) sales and services of educational activities.

Nonoperating Revenues — Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as state appropriations and investment income. Nonoperating revenues also include student fees, which were billed for capital improvements.

Other Revenues — Other revenues consist primarily of capital grants 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 2007 and 2006, the University received and disbursed approximately $ 12,017,000 and $10,573,000, 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, SMART Grant and College Work Study programs. The activity of these programs is recorded in the accompanying financial statements. In 2007 and 2006, the University received and disbursed approximately $ 2,475,000 and $2,400,000, 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 University 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 expenses during the reporting period. Actual results could differ from those estimates.

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

Reclassifications — Certain prior year amounts have been reclassified to conform with the current year presentation. In the financial statements, contributions from the Foundation of $492,202 were reclassified from Private Contracts and Grants to Gifts.

Recent Statements Issued by the GASB — The GASB has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after December 15, 2006. This statement provides standards for the measurement, recognition, and display of other postemployment benefit expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for postemployment benefits for the State. Effective July 1, 2007, the University is required to participate in this multiple employer cost sharing plan sponsored by the State. Details regarding this plan can be obtained by contacting Public Employees Insurance Agency, State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston, WV 25305-0710 or http://www.wvpeia.com.

The GASB has issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, effective for fiscal years beginning after December 15, 2006. This statement addresses whether an exchange of an interest in expected cash flows for collecting specific receivables of specific future revenues for an immediate lump sum should be regarded as a sale or as a collateralized borrowing resulting in a liability. It establishes criteria to determine whether proceeds should be reported as revenue or a liability. The University has not yet determined the effect that the adoption of GASB Statement No. 48 may have on the financial statements.

The GASB has issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, effective for fiscal years beginning after December 15, 2007. This statement addresses the obligations of existing pollution events. It provides guidance on whether any components of a remediation should be recognized as a liability. The University has not yet determined the effect that the adoption of GASB Statement No. 49 may have on the financial statements.

The GASB has issued Statement No. 50. *Pensions Disclosures* (an amendment of GASB Statements No. 25 and No. 27), effective for fiscal years beginning after June 15, 2007. This statement more closely aligns the financial reporting requirements for pension with those for other postemployment benefits, thus enhancing the information disclosed on the notes to the financial statements or presented as required supplementary information. The University has not yet determined the effect that the adoption of GASB Statement No. 50 may have on the financial statements.

The GASB has issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective for fiscal years beginning after June 15, 2009. This statement provides guidance regarding whether and when intangible assets should be considered capital assets for financial reporting purposes. The University has not yet determined the effect that the adoption of GASB Statement No. 51 may have on the financial statements.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents as of June 30, 2007 and 2006, are held as follows:

2007	Current	Noncurrent	Total
State Treasurer	$ 16,603,411	$ -	$ 16,603,411
Trustee Bank		279,896	279,896
Bank	400,802		400,802
	$ 17,004,213	$ 279,896	$ 17,284,109

2006	Current	Noncurrent	Total
State Treasurer	$ 12,944,636	$ -	$ 12,944,636
Trustee Bank		1,500,918	1,500,918
Bank	577,558		577,558
	$ 13,522,194	$ 1,500,918	$ 15,023,112

Cash and cash equivalents with the State Treasurer include $6,455 in 2007 and $67,490 in 2006 of restricted cash for grants.

Cash and cash equivalents with trustee banks include deposits held by the Trustee Bank for the bonds issued in January 2003, September 2004, and May 2005. The University uses the Trustee Bank as its trustee for the bond proceeds. The total amount held by the Trustee Bank on June 30, 2007 and 2006, was $279,896 and $1,500,918, respectively, and was invested in U.S. Treasury money market funds.

The combined carrying amount of cash in the bank at June 30, 2007 and 2006, was $ 400,802 and $577,558, respectively, as compared with the combined bank balance of $486,343 and $784,743, 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.

Amounts with the State Treasurer and the Municipal Bond Commission as of June 30, 2007 and 2006, are comprised of the following investment pools:

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

Cash Liquidity Pool —

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

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

	Credit Rating *		2007		2006	
Security Type	**Moody's**	**S&P**	**Carrying Value**	**Percent of Pool Assets**	**Carrying Value**	**Percent of Pool Assets**
Investments:						
Commercial paper	P1	A-1	$1,015,926	48.89 %	$ 943,057	54.14 %
Corporate bonds and notes	Aaa	AAA	98,999	4.76	61,992	3.56
	Aa3	AA	20,001	0.96		
	Aa3	A	23,002	1.11		
	Aa2	AA	15,000	0.72		
	Aa2	A	27,000	1.30		
	Aa1	AA	77,023	3.71		
	Aa	AA			55,063	3.16
	Aa	A			12,000	0.69
			261,025	12.56	129,055	7.41
U.S. agency bonds	Aaa	AAA	46,994	2.26	43,663	2.51
U.S. Treasury bills	Aaa	AAA	358,725	17.27	306,279	17.58
Negotiable certificates of deposit	P1	A-1	76,500	3.68	99,000	5.68
U.S. agency discount notes	P1	A-1	21,655	1.04	93,851	5.39
Money market funds	Aaa	AAA	185	0.01	758	0.04
Repurchase agreements (underlying securities):						
U.S. Treasury notes	Aaa	AAA			73,000	4.19
U.S. agency notes	Aaa	AAA	246,821	11.88	29,339	1.69
			246,821	11.88	102,339	5.88
Deposits — nonnegotiable certificates of deposit	NR	NR	50,000	2.41	23,800	1.37
			$2,077,831	100.00 %	$1,741,802	100.00 %

* NR = Not Rated. See "Deposits" note at the conclusion of this footnote.

At June 30, 2007 and 2006, the Entity's ownership represents 0.73% and 0.48%, respectively, of these amounts held by the BTI.

Government Money Market Pool —

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

	Credit Rating		2007		2006	
Security Type	**Moody's**	**S&P**	**Carrying Value**	**Percent of Pool Assets**	**Carrying Value**	**Percent of Pool Assets**
U.S. agency bonds	Aaa	AAA	$ 67,620	29.46 %	$ 21,420	11.76 %
U.S. Treasury bills	Aaa	AAA	36,379	15.85	28,346	15.56
U.S. agency discount notes	P1	A-1	74,143	32.30	112,399	61.70
Money market funds	Aaa	AAA	9		109	0.06
Repurchase agreements (underlying securities):						
U.S. Treasury notes	Aaa	AAA	51,400	22.39		
U.S. Treasury strips	Aaa	AAA			15,602	8.56
U.S. agency bonds	Aaa	AAA			4,298	2.36
			51,400	22.39	19,900	10.92
			$229,551	100.00 %	$182,174	100.00 %

At June 30, 2007 and 2006, the Entity's ownership represents 0.25% and 0.11%, respectively, of these amounts held by the BTI.

Enhanced Yield Pool —

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

	Credit Rating		2007		2006	
Security Type	**Moody's**	**S&P**	**Carrying Value**	**Percent of Pool Assets**	**Carrying Value**	**Percent of Pool Assets**
Corporate asset backed securities	P1	A-1	$ 42,122	18.40 %	$ 46,963	17.70 %
Corporate bonds and notes	Aaa	AAA	1,667	0.73	2,448	0.92
	Aa3	AA	7,857	3.43		
	Aa3	A	3,905	1.70		
	Aa2	AA	950	0.41		
	Aa2	A	2,177	0.95		
	Aa1	AA	6,431	2.81		
	A3	A	6,958	3.04		
	A2	AA	747	0.33		
	A2	A	8,188	3.58		
	A1	AA	3,034	1.32		
	A1	A	10,706	4.68		
	Aa	AA			3,790	1.43
	Aa	A			15,660	5.90
	A	AA			3,048	1.15
	A	A			46,847	17.65
			52,620	22.98	71,793	27.05
U.S. agency bonds	Aaa	AAA	46,075	20.13	87,215	32.86
U.S. Treasury bills	Aaa	AAA			58,067	21.88
U.S. Treasury notes	Aaa	AAA	55,877	24.41		
U.S. agency mortgage backed securities	Aaa	AAA	11,741	5.13		
Repurchase agreements (underlying securities):						
U.S. agency mortgage backed securities	Aaa	AAA			1,346	0.51
U.S. agency notes	Aaa	AAA	20,485	8.95		
			20,485	8.95	1,346	0.51
			$228,920	100.00 %	$265,384	100.00 %

At June 30, 2007 and 2006, the Entity's ownership represents 0.38% and 1.66%, respectively, of these amounts held by the BTI.

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

The overall weighted average maturity of the investments of the Cash Liquidity Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase. The following table provides information on the weighted average maturities for the various asset types in the Cash Liquidity Pool:

	2007		2006	
Security Type	**Carrying Value (In Thousands)**	**WAM (Days)**	**Carrying Value (In Thousands)**	**WAM (Days)**
Repurchase agreements	$ 246,821	2	$ 102,339	3
U.S. Treasury bills	358,725	30	306,279	32
Commercial paper	1,015,926	52	943,057	25
Certificates of deposit	126,500	76	122,800	105
U.S. agency discount notes	21,655	113	93,851	89
Corporate notes	261,025	58	129,055	77
U.S. agency bonds/notes	46,994	156	43,663	208
Money market funds	185	1	758	1
	$2,077,831	48	$1,741,802	42

The overall weighted average maturity of the investments of the Government Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase. The following table provides information on the weighted average maturities for the various asset types in the Government Money Market Pool:

	2007		2006	
Security Type	**Carrying Value (In Thousands)**	**WAM (Days)**	**Carrying Value (In Thousands)**	**WAM (Days)**
Repurchase agreements	$ 51,400	2	$ 19,900	3
U.S. Treasury bills	36,379	29	28,346	42
U.S. agency discount notes	74,143	106	112,399	39
U.S. agency bonds/notes	67,620	60	21,420	152
Money market funds	9	1	109	1
	$229,551	49	$182,174	49

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

	2007		2006	
Security Type	Carrying Value (In Thousands)	WAM (Days)	Carrying Value (In Thousands)	WAM (Days)
Repurchase agreements	$ 20,485	2	$ 1,346	3
U.S. Treasury bonds/notes	55,877	1,092	58,067	894
Corporate notes	52,620	557	71,793	588
Corporate asset backed securities	42,122	421	46,963	688
U.S. agency bonds/notes	46,075	927	87,215	594
U.S. agency mortgage backed securities	11,741	814		
	$ 228,920	700	$ 265,384	672

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

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

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the BTI will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Repurchase agreements are required to be collateralized by at least 102% of their value, and the collateral is held in the name of the BTI. Securities lending collateral that is reported on the BTI's Statement of Fiduciary Net Assets is invested in the lending agent's money market fund in the BTI's name. In all transactions, the BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. None of the BTI's Consolidated Fund's investment pools or accounts holds interests in foreign currency or interests valued in foreign currency.

Deposits — Custodial credit risk of deposits is the risk that in the event of failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits include nonnegotiable certificates of deposit. The Cash Liquidity Pool contains nonnegotiable certificates of deposit valued at $50,000,000, which represents 2.41% of the pool's assets. The BTI does not have a deposit policy for custodial credit risk.

4. INVESTMENTS

Investments as of June 30, 2007 and 2006, consist of the following:

	2007	2006
Repurchase agreements	$ -	$ 4,463,232
U.S. Treasury money market fund	389,997	389,997
	$ 389,997	$ 4,853,229

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, 2007 and 2006, is $ 389,997 and $389,997, respectively. The repurchase agreements invests in securities issued by the United States Government or the Government National Mortgage Association, and securities issued or guaranteed by Freddie Mac or Fannie Mae or other agency, corporation, or instrumentality of the United States of America and such other securities as MBIA Inc. and the Bond Trustee may agree to in writing. The carrying value at June 30, 2006, was $4,463,232. These funds have no significant custodial credit risk nor interest rate risk. These funds are not exposed to a concentration of credit risk nor any foreign currency risk.

5. ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2007 and 2006, is as follows:

	2007	2006
Student tuition and fees, net of allowance for doubtful accounts of $202,128 and $208,354 in 2007 and 2006, respectively	$ 338,601	$ 224,210
Grants and contracts receivable	1,285,330	310,075
	$ 1,623,931	$ 534,285

6. CAPITAL ASSETS

Summary of capital assets transactions for the University as of June 30, 2007 and 2006, are as follows:

	2007			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 1,120,925	$ -	$ -	$ 1,120,925
Construction in progress	25,546,220	21,321,300	24,411,862	22,455,658
Total capital assets not being depreciated	$ 26,667,145	$ 21,321,300	$ 24,411,862	$ 23,576,583
Other capital assets:				
Land improvements	$ 302,006	$ 42,273	$ -	$ 344,279
Infrastructure	2,323,571	6,474,318		8,797,889
Buildings	71,936,051	17,903,149		89,839,200
Equipment	8,942,483	1,480,319	392,348	10,030,454
Library books	3,842,867	181,461	29,834	3,994,494
Total other capital assets	87,346,978	26,081,520	422,182	113,006,316
Less accumulated depreciation for:				
Land improvements	78,318	24,197		102,515
Infrastructure	752,582	517,350		1,269,932
Buildings	25,743,022	2,119,697		27,862,719
Equipment	5,510,335	931,194	341,085	6,100,444
Library books	2,919,464	227,411	29,836	3,117,039
Total accumulated depreciation	35,003,721	3,819,849	370,921	38,452,649
Other capital assets — net	$ 52,343,257	$ 22,261,671	$ 51,261	$ 74,553,667
Capital asset summary:				
Capital assets not being depreciated	$ 26,667,145	$ 21,321,300	$ 24,411,862	$ 23,576,583
Other capital assets	87,346,978	26,081,520	422,182	113,006,316
Total cost of capital assets	114,014,123	47,402,820	24,834,044	136,582,899
Less accumulated depreciation	35,003,721	3,819,849	370,921	38,452,649
Capital assets — net	$ 79,010,402	$ 43,582,971	$ 24,463,123	$ 98,130,250

(Continued)

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

(Concluded)

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

The University has construction commitments of approximately $6,900,000 as of June 30, 2007.

7. LONG-TERM LIABILITIES

Summary of long-term obligation transactions for the University for the years ended June 30, 2007 and 2006, are as follows:

	2007				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term liabilities:					
Accrued compensated absences	$ 2,999,495	$ -	$130,796	$ 2,868,699	$ 715,329
Debt obligation due Commission	2,201,570		381,117	1,820,453	384,300
Bonds payable	32,603,226		266,624	32,336,602	680,000
Capital lease obligations	209,406		61,190	148,216	63,117
Advances from Federal Sponsors	634,586		61,960	572,626	
Total long-term liabilities	$38,648,283	$ -	$901,687	$37,746,596	$1,842,746

	2006				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term liabilities:					
Accrued compensated absences	$ 2,116,762	$882,733	$ -	$ 2,999,495	$ 681,021
Debt obligation due Commission	3,148,020		946,450	2,201,570	381,118
Bonds payable	32,859,850		256,624	32,603,226	240,000
Capital lease obligations	271,738		62,332	209,406	61,190
Advances from Federal Sponsors	639,434		4,848	634,586	
Total long-term liabilities	$39,035,804	$882,733	$1,270,254	$38,648,283	$1,363,330

8. BONDS

Bonds payable as of June 30, 2007 and 2006, consisted of the following:

	Interest Rate	Annual Principal Installment Due	Principal Amount Outstanding	
			2007	2006
Student Fee Revenue Bonds, due through 2033	3.0% to 0.05125	$105,000 to 370000	$ 5,670,000	$ 5,780,000
Infrastructure Revenue Bonds, due through 2024	2.0% to 0.045	$125,000 to 240000	2,995,000	3,125,000
Residence Facilities Revenue Bonds, due through 2035	3.25% to 0.05	$435,000 to 1450000	22,925,000	22,925,000
			31,590,000	31,830,000
Discount			(39,169)	(40,710)
Premium			785,771	813,936
			$ 32,336,602	$ 32,603,226

The Bonds are special originations of the Board and are secured and payable from fees assessed to students of the University held under the Indenture. The Bonds shall not be deemed to be general obligations or a debt of the State within the meaning of the Constitution of the State and the credit or taxing power of the State or the University shall not be pledged therefore. The University has fixed and will maintain and collect fees from all students enrolled in the University.

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 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 $461,312 and $450,518 as of June 30, 2007 and 2006, respectively.

For both the years ending June 30, 2007 and 2006, capital financing fees (“fees”) of $69 per student per semester based on FTE enrollment, are pledged to the Bonds with pro-rata reductions for those student enrolled part time and during the summer term.

Fees shall at all times be sufficient to provide pledged revenues each year equal to at least 110% of maximum annual debt service. During the years ended June 30, 2007 and 2006, net revenues, when combined with other monies legally available for payment of debt service were in excess of the maximum annual debt service.

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

The Bonds consist of $1,425,000 Serial Bonds with varying interest rates from 2.00% to 3.625%, and mature serially from June 1, 2005 to June 1, 2014. Term Bonds of $885,000 and $1,095,000 bear interest at 4.00% and 4.50% and mature June 1, 2019 and June 1, 2024, respectively. Term Bonds are subject to mandatory redemption prior to maturity from December 1, 2016 through 2028. The redemption prices are 100% of the principal amount, plus accrued interest.

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

For both the years ending June 30, 2007 and 2006, capital financing fees (“fees”) of $48 per student per semester, based on FTE enrollment, are pledged to the Bonds, with pro-rata reductions for those students enrolled part time and during the summer term. The Bonds shall not be deemed to be general obligations or a debt of the State within the meaning of the Constitution of the State and the credit or taxing power of the State or the University shall not be pledged therefore.

Fees shall at all times be sufficient to provide pledged revenues each fiscal year equal to at least 100% of maximum annual debt service. During the years ended June 30, 2007 and 2006, net revenues, when combined with other monies legally available for payment of debt service were in excess of the maximum annual debt service.

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

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

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

Beginning in the fall 2006 semester, rental fees from the new facilities are used to operate the facility and with other sources of revenues identified in the pledge, pay debt service. Fees shall at all times be sufficient to provide pledged revenues each fiscal year. The fees shall at all times be sufficient to provide pledged revenues, when combined with other monies legally available to be used for such purpose, each fiscal year equal to at least 100% of maximum annual debt service. During the year ended June 30, 2007, net revenues when combined with other monies legally available for payment of debt service were in excess of the maximum annual debt service.

Summary of the annual aggregate principal and interest payments for years subsequent to June 30, 2007, are as follows:

Years Ending June 30	2003 Bonds Principal	2003 Bonds Interest	2004 Bonds Principal	2004 Bonds Interest	2005 Bonds Principal	2005 Bonds Interest
2008	$ 115,000	$ 273,383	$ 130,000	$ 116,605	$ 435,000	$ 1,091,294
2009	115,000	269,875	135,000	113,485	450,000	1,077,156
2010	120,000	266,052	140,000	109,840	460,000	1,062,531
2011	125,000	261,512	145,000	105,640	480,000	1,046,431
2012	130,000	256,412	150,000	101,000	495,000	1,029,631
2013–2017	730,000	1,193,976	825,000	420,400	2,775,000	4,848,813
2018–2022	925,000	995,956	1,005,000	241,525	3,505,000	4,124,000
2023–2027	1,180,000	728,150	465,000	31,725	4,470,000	3,156,000
2028–2032	1,510,000	385,656			5,705,000	1,921,250
2033–2035	720,000	37,412			4,150,000	421,750
Total	$5,670,000	$4,668,384	$2,995,000	$1,240,220	$22,925,000	$19,778,856

9. COMPENSATED ABSENCES

Composition of the compensated absence liability as of June 30, 2007 and 2006, are as follows:

	2007	2006
Health or life insurance benefits	$ 1,852,173	$ 2,044,652
Accrued vacation leave	1,016,526	954,843
	$ 2,868,699	$ 2,999,495

The cost of health and life insurance benefits paid by the University is based on a combination of years of service and age. For the years ended June 30, 2007 and 2006, the amount paid by the University for extended health or life insurance coverage retirement benefits totaled approximately $64,593 and $76,283, respectively. As of June 30, 2007 and 2006, there were 33 and 44 retirees, respectively, currently receiving these benefits.

10. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

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

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

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

During the year ended June 30, 2005, the West Virginia Higher Education Policy Commission issued $167 million of 2004 Series B 30-year Revenue Bonds to fund capital projects at various higher education institutions in the State. The University has been approved to receive $12.5 million of these funds. State lottery funds will be used to repay the debt, although University revenues are pledged if lottery funds prove to be insufficient. For the years ended June 30, 2007 and 2006, the University has recognized $8,417,193 and $317,404, respectively, of the amount authorized. The University has approximately $2,600,000 of the original $12,500,000 which has not been expended.

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

Debt services assessed as of June 30, 2007 and 2006, are as follows:

	2007	2006
Principal	$ 381,118	$ 376,344
Interest	92,758	104,048
Other	96,442	102,358
	$ 570,318	$ 582,750

11. UNRESTRICTED NET ASSETS

The University did not have any designated net assets as of June 30, 2007 or 2006.

12. RETIREMENT PLANS

Substantially, all full-time employees of the University participate in either the West Virginia Teachers' retirement System (the "STRS"), the Teachers' Insurance and Annuities Association — College Retirement Equities Fund (the "TIAA-CREF") or 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 Great West basic retirement plan. New hires have the choice of either plan. As of June 30, 2007 and 2006, only one employee has elected this plan.

Total contributions to the Great West for the years ended June 30, 2007, 2006, and 2005, were $5,948, $2,734, and $574, respectively, which consisted of equal contributions from the University and the covered employee in 2007, 2006, and 2005 of $2,974, $1,367, and $287, respectively.

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, 2007 and 2006. Required employee contributions were at the rate of 6% of total annual salary for the years ended June 30, 2007 and 2006. 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, 2007, 2006, and 2005, were $ 132,455, $133,519, and $145,698, respectively, which consisted of $93,034, $94,195, and $102,317, from the University in 2007, 2006, and 2005, respectively, and $39,421, $39,324, and $43,381 from the covered employees in 2007, 2006, and 2005, respectively.

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

The TIAA-CREF is a defined contribution benefit plan in which benefits are based solely upon amounts contributed, plus investment earnings. Employees who elect to participate in this plan are required to make a contribution equal to 6% of total annual compensation. The University matches the employees' 6% contribution. Contributions are immediately and fully vested. In addition, employees may elect to make additional contributions to TIAA-CREF which are not matched by the University.

Total contributions to the TIAA-CREF for the years ended June 30, 2007, 2006 and 2005, were $1,835,519, $1,721,486, and $1,830,095, respectively, which consisted of equal contributions from the University and covered employees in 2007, 2006 and 2005 of $917,759, $860,743, and $915,047, respectively.

The University's total payroll for the years ended June 30, 2007 and 2006, was $19,030,299 and $17,688,350, respectively, and total covered employees' salaries in the STRS, TIAA-CREF, and Great West were $693,805, $15,295,991, and $49,568 in 2007, and $14,345,714, $691,103, and $22,791 in 2006, respectively.

13. FOUNDATION

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

Based on the Foundation's audited financial statements as of June 30, 2007 and 2006, the Foundation's net assets (including unrealized gains) totaled $20,019,081 and $17,682,956, respectively. Complete financial statements of the Foundation can be obtained from The Shepherd University Foundation, Incorporated, P.O. Box 3210, Shepherdstown, West Virginia 25443-3210.

During the years ended June 30, 2007 and 2006, the Foundation contributed $653,371 and $492,202, respectively, to the University for scholarships and awards.

14. AFFILIATED ORGANIZATION (UNAUDITED)

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

15. CONTINGENCIES

The nature of the educational industry is such that, from time-to-time, claims will be presented against the University on account of alleged negligence, acts of discrimination, breach of contract, or disagreements arising from the interpretation of laws or regulations. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational services in a higher education system. In the opinion of management, all known claims are covered by insurance or are such that an award against the University would not have a significant financial impact on the financial position of the University.

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

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

16. SEGMENT INFORMATION

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

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

Condensed Statement of Net Assets as of June 30

	Student Fee Revenue Bonds 2003		Infrastructure Revenue Bonds 2004		Residence Facilities Projects Revenue Bonds 2005	
	2007	2006	2007	2006	2007	2006
Assets:						
Current assets	$ 668,748	$ 517,020	$ 168,078	$ 108,523	$ 6,558,521	$ 15,827
Noncurrent assets	5,114,485	5,240,693	3,339,606	4,384,876	20,507,458	22,787,200
Total assets	$5,783,233	$ 5,757,713	$3,507,684	$4,493,399	$27,065,979	$22,803,027
Liabilities:						
Current liabilities	$ 161,426	$ 140,148	$ 139,934	$ 982,762	$ 1,156,720	$ 925,804
Noncurrent liabilities	5,555,000	5,670,000	2,865,000	2,995,000	23,275,771	23,755,058
Total liabilities	5,716,426	5,810,148	3,004,934	3,977,762	24,432,491	24,680,862
Net assets (deficit):						
Invested in capital assets — net of related debt	(1,316,136)	(1,055,876)	245,808	411,649	(3,621,206)	(1,643,368)
Restricted — debt service	604,915	486,421	88,894	(4,535)	326,960	598,187
Unrestricted	778,028	517,020	168,049	108,523	5,927,734	(832,654)
Total net assets (deficit)	66,807	(52,435)	502,751	515,637	2,633,488	(1,877,835)
Total net assets and liabilities	$5,783,233	$ 5,757,713	$3,507,685	$4,493,399	$27,065,979	$22,803,027

Condensed Statement of Revenues, Expense, and Changes in Net Assets for the Year Ended June 30

	Student Fee Revenue Bonds 2003		Infrastructure Revenue Bonds 2004		Residence Facilities Projects Revenue Bonds 2005	
	2007	2006	2007	2006	2007	2006
Operating:						
Operating revenues	$ 541,202	$ 517,090	$ 314,607	$ 304,256	$ 12,738,049	$ -
Operating expenses	(166,668)	(359,362)	(215,382)	(6,710)	(11,572,491)	(7,164)
Net operating income (expense)	374,534	157,728	99,225	297,546	1,165,558	(7,164)
Nonoperating:						
Nonoperating revenues	21,190	33,987	7,094	86,333	450,024	453,277
Nonoperating expenses	(276,483)	(289,136)	(119,205)	(121,705)	(1,087,353)	(434,784)
Net nonoperating (expense) income	(255,293)	(255,149)	(112,111)	(35,372)	(637,329)	18,493
Transfers in					3,983,094	
Increase (decrease) in net assets	119,241	(97,421)	(12,886)	262,174	4,511,323	11,329
Net assets (deficit) — beginning of year	(52,435)	44,986	515,637	253,463	(1,877,835)	(1,889,164)
Net assets (deficit) — end of year	$ 66,806	$ (52,435)	$ 502,751	$ 515,637	$ 2,633,488	$(1,877,835)

Condensed Statement of Cash Flows for the Year Ended June 30

Net cash provided by operating activities	$ 540,302	$ 515,649	$ 313,423	$ 302,691	$ 1,653,362	$ -
Net cash used in capital and related financing	(389,258)	(423,155)	(1,481,573)	(327,445)	(978,686)	(511,562)
Net cash provided by investing activities	23,101	35,672	1,232,368	80,740	5,202,551	511,562
Increase in cash and cash equivalents	174,145	128,166	64,218	55,986	5,877,227	-
Cash and cash equivalents — beginning of year	512,817	384,651	98,742	42,756		
Cash and cash equivalents — end of year	$ 686,962	$ 512,817	$ 162,960	$ 98,742	$ 5,877,227	$ -

17. SUBSEQUENT EVENT

In October 2007, the University issued $20,090,000 of revenue bonds, Series 2007, in connection with Shepherd's Wellness Center Project.

18. COMPONENT UNIT'S DISCLOSURES

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

	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, 2010.

Pledges receivable as of June 30, 2007 and 2006, 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.

	2007	2006
Receivable in less than one year	$ 122,679	$ 40,030
Receivable in one to five years	367,249	
Receivable in six to ten years	54,000	6,300
Total pledges receivable	543,928	46,330
Less discount to net present value	(62,645)	
Total pledges receivable	$ 481,283	$ 46,330

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, 2007 and 2006, are composed of the following:

Description	Cost	Market
2007		
Cash and temporary investments	$ 1,925,238	$ 1,923,619
U.S. Government securities	9,503,707	9,631,403
Corporate bonds and notes	1,258,250	1,237,350
Common stocks	6,764,686	8,263,369
Investment securities	$ 19,451,881	$ 21,055,741

	Cost	Market
2006		
Cash and temporary investments	$ 1,830,248	$ 1,829,589
U.S. Government securities	9,916,041	9,890,253
Corporate bonds and notes	914,883	877,931
Common stocks	5,786,474	6,458,392
Investment securities	$ 18,447,646	$ 19,056,165

The investment in real estate is comprised of the following:

Description	Cost	Accumulated Depreciation	Net Book Value
2007			
Land	$ 40,000	$ -	$ 40,000
Building	160,202	47,393	112,809
	$ 200,202	$ 47,393	$ 152,809
2006			
Land	$ 40,000	$ -	$ 40,000
Building	160,202	47,388	116,814
	$ 200,202	$ 47,388	$ 156,814

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

Summary of the Foundation's investments as of June 30, 2007 and 2006, is as follows:

Description	Cost	Market
2007		
Investment securities	$18,636,976	$21,055,741
Real Estate	152,809	152,809
	$18,789,785	$21,208,550
2006		
Investment securities	$18,447,646	$19,056,165
Real Estate	156,814	156,814
	$18,604,460	$19,212,979

D. EQUIPMENT

Equipment consists of the following:

	2007	2006
Office equipment (at cost)	$ 16,019	$ 16,019
Accumulated depreciation	(7,635)	(5,114)
Net book value	$ 8,384	$ 10,905

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, 2007 and 2006, are as follows:

	2007	2006
Custodial receipts	$ 761,025	$ 57,917
Custodial payments	(667,092)	(362,111)
Interest and gains on investments	123,376	8,914
Net decrease in custodial liabilities	$ 217,309	$ (295,280)

F. GIFT ANNUITIES

Gift annuities payable consist of the following liabilities:

	2007	2006
Daniel and Orpha Cowgill Annuity	$ 42,689	$ 44,047
James K. Wright, Jr. Annuity	43,352	45,390
Benjamin and Mary Lou Mehrling Annuity	5,414	5,591
James K. and Gladys L. Wright Annuity	18,464	19,169
MEO Annuity	66,574	
Total	$ 176,493	$ 114,197

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, 2007 and 2006, was $8,245 and $6,225, respectively.

H. CONDITIONAL PROMISES TO GIVE

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

I. CONCENTRATION OF CREDIT RISK

The Foundation places the majority of its demand deposits with one bank and at the current time does not limit the daily cash balances to the federally insured limits of $100,000. From time to time during 2007 and 2006, 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.

19. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2007 and 2006, the following represents operating expenses within both natural and functional classifications:

2007

	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Fees Assessed by the Commission	Total
Instruction	$ 8,989,894	$1,824,320	$ 955,468	$ 332	$ -	$ -	$ -	$11,770,014
Research	13,794	1,550	7,013					22,357
Public service	112,815	12,662	108,970	303				234,750
Academic support	1,490,378	337,935	738,228	1,307				2,567,848
Student services	2,008,664	433,140	1,134,113	1,078				3,576,995
General institutional support	1,930,813	735,084	1,120,649	942				3,787,488
Operations and maintenance of plant	1,227,847	317,930	2,259,634	1,160,790				4,966,201
Student financial aid					1,744,441			1,744,441
Auxiliary enterprises	3,397,604	549,584	5,410,576	893,134				10,250,898
Depreciation						3,819,848		3,819,848
Other							265,251	265,251
Total	$19,171,809	$4,212,205	$11,734,651	$2,057,886	$1,744,441	$3,819,848	$ 265,251	$43,006,091

2006

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

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN 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 year ended June 30, 2007, and have issued our report thereon dated October 19, 2007, which states reliance on other auditors for the discretely presented component unit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The University's discretely presented component unit was audited in accordance with auditing standards generally accepted in the United States of America but not in accordance with the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of the Shepherd University Governing Board, 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.

Deloitte & Touche LLP

October 19, 2007