Shepherd University

Financial Statements as of and for the
Years Ended June 30, 2008 and 2007, 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, 2008 and 2007, 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, 2008 and 2007, and the cash flows of the University for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, during the year ended June 30, 2008, the University adopted Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

The Management Discussion and Analysis on pages 3 to 12 is not a required part of the financial statements, but is supplementary information required by the 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 28, 2008, 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 28, 2008

Shepherd University
Management Discussion and Analysis (Unaudited)
Fiscal Years 2008 and 2007

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 University consists of the former baccalaureate component of the institution. This University is governed by the West Virginia Higher Education Policy Commission.

The University was founded in 1871. It offers Bachelor of Arts, Bachelor of Fine Arts, and Bachelor of Science degrees in a wide range of fields, encompassing the liberal arts, business administration, teacher education, the social and natural sciences, and other career oriented areas. The University also has graduate programs which 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 2008 data compared to the financial statements presented for fiscal year 2007. 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, 2008, and 2007. 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 accumulated depreciation and debt, provides the institution's equity in property, plant, and equipment owned by the institution. The second net asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. Shepherd University does not currently have nonexpendable restricted net assets since all funds of this nature would be directed to the Shepherd University Foundation. The corpus of nonexpendable restricted resources is available only for investment purposes. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The third category is unrestricted net assets. Unrestricted net assets are available to the institution for any lawful purpose of the institution.

Condensed Statements of Net Assets
(In thousands of dollars)

	June 30		
	FY 2008	FY 2007	FY 2006
Assets:			
Cash	$ 18,301	$ 17,004	$ 13,522
Other Current Assets	1,458	3,613	1,406
Noncurrent Assets	124,658	99,723	86,284
Total Assets	144,417	120,340	101,212
Liabilities:			
Current Liabilities	9,039	8,902	8,105
Noncurrent Liabilities	52,708	35,904	37,285
Total Liabilities	61,747	44,806	45,390
Net Assets	$ 82,670	$ 75,534	$ 55,822

Assets:

- Current cash increased $1.3 million in fiscal year 2008. Cash savings were realized from vacant positions. Current cash increased $3.5 million in fiscal year 2007. Vacant positions were also a factor during the 2007 fiscal year. In addition, the University realized cash savings from the conservation of resources for future expenditures. During fiscal year 2007, capitalized interest proceeds from the 2005 bonds were used to pay part of the related interest expense.
- The amount due from the Commission decreased $1.2 million during fiscal year 2008 because a capital project funded from the 2004 Higher Education Policy Commission Bonds was completed. No proceeds were due from the Commission for this project at year end. During fiscal year 2007, the amount due from the Commission had increased $1,103,000, with $922,000 for the capital project funded by the 2004 Higher Education Policy Commission Bonds.
- During fiscal year 2008, accounts receivable decreased $1 million. The University received a $1.25 million payment during the year from the Department of Housing and Urban Development. This amount was owed to the University for the construction of Erma Ora Byrd Hall. During fiscal year 2007, accounts receivable increased $1.1 million because this receivable was outstanding. Receivables from other grants and contracts declined during fiscal year 2007 from fiscal year 2006.
- During fiscal year 2007, restricted cash and cash equivalents decreased $1.2 million. During the 2007 fiscal year, the University expended bond proceeds for the completion of the residence halls and infrastructure projects.
- Investments increased $15.7 million during fiscal year 2008 because the proceeds from the 2007 bond issue (issued in fiscal year 2008) for the Wellness Center were invested. During fiscal year 2007, investments decreased $4.5 million. Investments were sold to pay for the construction of the new residence halls.
- Bond issuance costs increased $361,000 at June 30, 2008 primarily as a result of the 2007 bond issuance.

- During fiscal year 2008, capital assets increased $8.9 million. The total expended for construction projects was $12.2 million. In addition, $1.4 million was expended for equipment and library books. These increases were offset by depreciation totaling $4.7 million. During fiscal year 2007, 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 offset by depreciation in the amount of $3.8 million for fiscal year 2007.

Liabilities:

- During fiscal year 2008, accounts payable decreased $765,000. The accounts payable for utilities increased $107,000 because utility and electric costs increased. Accounts payable for capital additions decreased $330,000 because construction activity declined. During fiscal year 2007, accounts payable decreased $327,000. Accounts payable related for supplies and equipment increased $675,000 because furniture and equipment was purchased for Erma Ora Byrd Hall. Accounts payable for utilities increased $164,000 because more payments were made through University purchase cards than in fiscal year 2006. Accounts payable for construction decreased $512,000 from fiscal year 2006
- During fiscal year 2008, accrued liabilities increased $247,000 in total. Accrued interest increased $71,000 because the 2007 bonds were issued during the year. The rest of the increase was from accrued payroll. Accrued payroll increased because salary rates were higher than in fiscal year 2007 and more employees are paid in arrears. The fiscal year 2007 increase of $168,000 was also related to accrued payroll for the same reasons.
- Deferred revenue increased $191,000. Deferred revenues related to summer school tuition and fees increased $137,000. Deferred revenues related to grants increased $54,000 because the amount of cash received in advance for grant expenditures increased.
- The current portion of bonds payable increased $365,000. The 2007 bonds were only issued during fiscal year 2008.
- The noncurrent portion of the compensated absence liability decreased $1.8 million. As a result of rule changes for other postemployment benefits, the Public Employees Insurance Agency ("PEIA") established the West Virginia Retiree Health Benefits Trust Fund to assume responsibility for postemployment benefits under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, previously accrued by the University under GASB Statement No. 16, *Accounting for Compensated Absences*. Gross billings to the University during the year totaled $1,630,308. The State of West Virginia paid approximately $539,000 of this amount and $346,000 is reflected as a long-term accrued liability.
- The current portion of leases payable increased $75,000 because the University purchased a synthetic turf field for Ram Stadium. A lease purchase agreement was made to finance the purchase.
- The noncurrent portions of the debt obligation due the commission declined in accordance with their related payment schedules.

Statement of Revenues, Expenses, and Changes in Net Assets

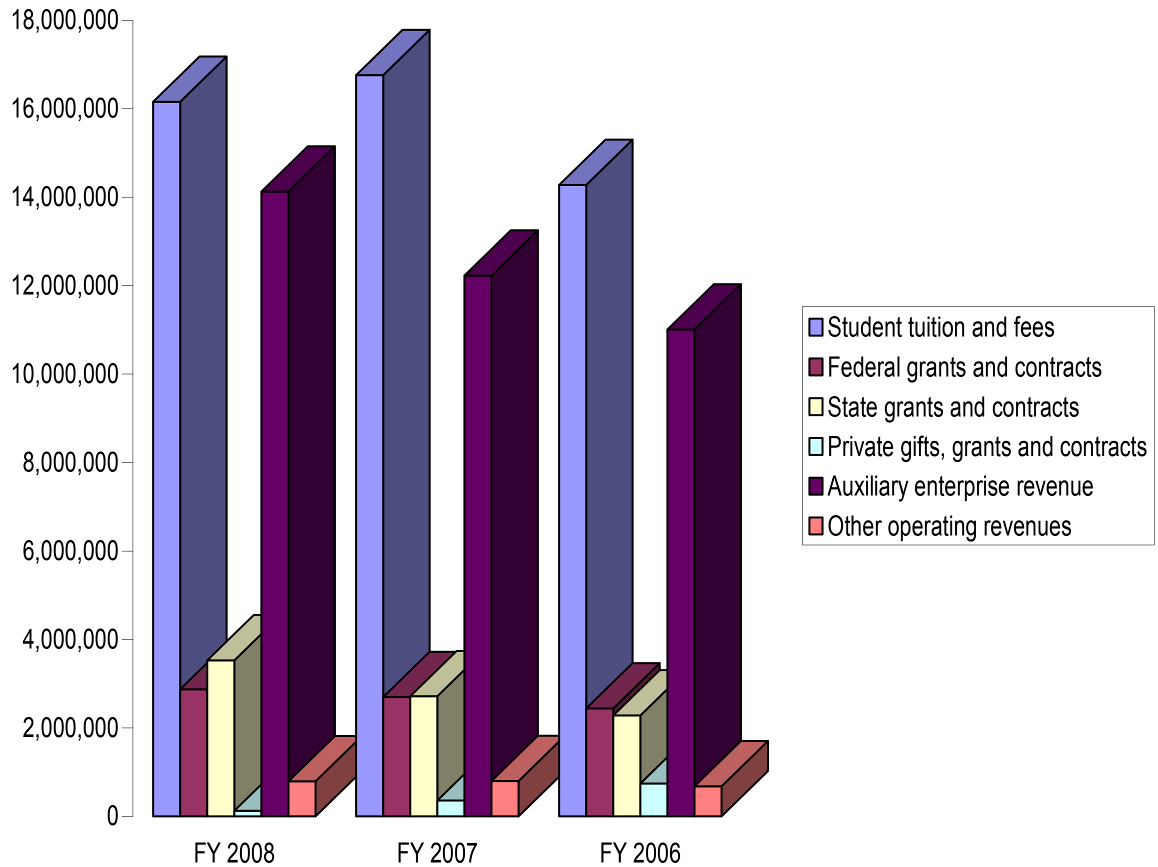
Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the institution, both operating and nonoperating, and the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

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.

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

	FY 2008	FY 2007	FY 2006
Operating Revenues	$ 37,662	$ 36,093	$ 32,134
Operating Expenses	47,866	43,006	40,792
Operating Loss	(10,204)	(6,913)	(8,658)
Nonoperating Revenues — Net	11,134	10,312	9,305
Income Before Other Revenues, Expenses, Gains, or Losses	930	3,399	647
Capital and Bond Proceeds From Commission	3,534	8,575	318
Capital Grants and Gifts	820	7,738	1,277
Increase in Net Assets Before Cumulative Effect or Transfers	5,284	19,712	2,242
Cumulative Effect of OPEB	1,852		
Transfer of Net Assets to the Community and Technical College of Shepherd			(1,451)
Increase in Net Assets	7,136	19,712	791
Net Assets — Beginning of Year	75,534	55,822	55,031
Net Assets — End of Year	$ 82,670	$ 75,534	$ 55,822

Operating Revenues

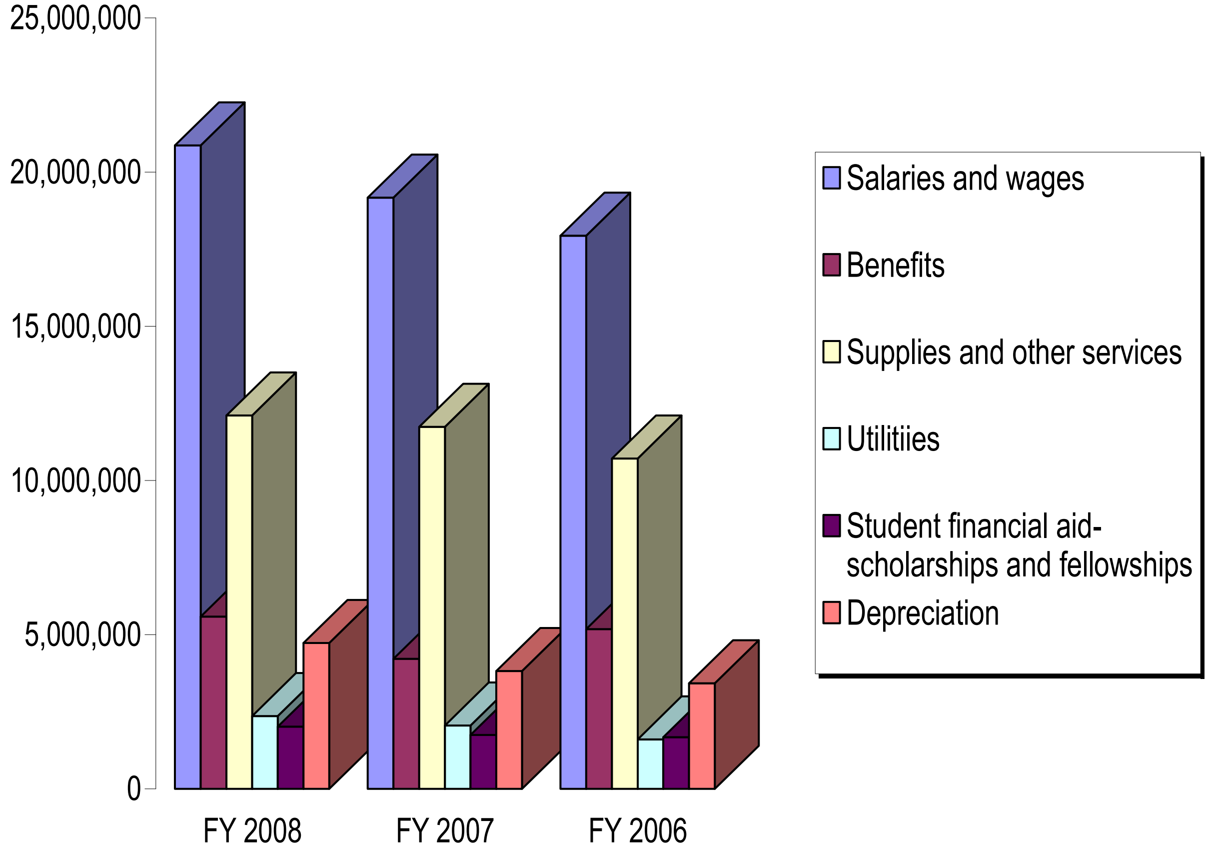


Operating Revenues:

- Gross student tuition and fees only increased by $78,000 in fiscal year 2008. Fees for general operations were decreased $104 for in-state students and increased $74 for out-of-state students for fiscal year 2008. In the 2006 legislative session, $1.1 million in state appropriations were added to the University's base budget to partially fund the debt service for a new wellness center and pool. In fiscal year 2007, $1.1 million in operating expenses were transferred from the operations fee fund to the State appropriations fund. In the same fiscal year, $1.1 million was set aside from operations fee revenues to contribute to the design and construction of the Wellness Center. For fiscal year 2008, $161 was deducted from the operations fee and added to the Wellness Center Capital Fee for both in-state and out-of-state students. At the same time, increases of $57 for in-state students and $235 for out-of-state students were required to address increases in operating costs. The number of full-time equivalent (FTE) enrollment resident students increased 1.3 %. During fiscal year 2007, Gross student tuition and fees increased by $3.3 million for a 17.5% overall increase. This is attributed to a combination of factors including a 6.28% increase in non-auxiliary tuition and fees rates for undergraduate resident students and a 7.54% increase for nonresident students. The number of FTE enrollment resident students increased 4.11 %. Most of the new students were not West Virginia residents and paid the out-of-state tuition and fee rate.

- Federal grants and contracts increased $173,000 in fiscal year 2008 and $261,000 in fiscal year 2007. In 2007, the University received $192,000 from a HUD grant for the building maintenance needs of the Center for Legislative Studies.
- State grants and contracts increased $811,000 in fiscal year 2008. The Shepherd University Research Corporation received $476,000 from the West Virginia Department of Health and Human Resources for the Medical Transformation Grant. Other revenues for state financial aid also increased. State grants and contracts increased $436,000 in fiscal year 2007. Promise Scholarship and HEAPS scholarships increased from fiscal year 2006.
- In fiscal year 2008, private grants and contracts decreased $229,000 because the number and dollar amounts of grants declined. Private grants and contracts increased $107,000 in fiscal year 2007 because several grants for capital projects were received. Other private grants also increased.
- The sales and services of auxiliary enterprises increased $1.9 million or 15.5% in fiscal year 2008. The Wellness Center capital fee generated $1.3 million in revenues. In addition, Housing and Dining revenues increased $178,000 and $88,000, respectively, because the room and meal plan rates increased. 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.
- Other revenues remained relatively constant in fiscal year 2008. Other revenues increased by $115,000 in fiscal year 2007. 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:

- Salaries and wages increased $1.7 million because salaries were increased 5% in fiscal year 2008. Five new faculty positions were also added and facilities positions were approved to maintain the two new academic buildings. This followed a $1.2 million increase in fiscal year 2007.
- The cost of benefits increased $1.3 million during fiscal year 2008. The University's expense for of postemployment benefits was $1.6 million, but also had a $539,000 payment made on behalf of the University for the OPEB expense. The rest of the benefit increases are related to the salary changes and additional staff. The total cost of benefits decreased by $965,000 in fiscal year 2007. The compensated absences liability decreased by $131,000 in fiscal year 2007 because the insurance rates for retirees declined.
- Supplies and other services only increased by $375,000 in fiscal year 2008. Furniture was also purchased during fiscal year 2008 for Center for Contemporary Arts. Supplies and other services

increased $1 million in fiscal year 2007. The University purchased furniture and equipment for the new residence halls and Erma Ora Byrd Hall. These purchases were less than the University's capitalization threshold on an individual asset basis.

- During fiscal year 2008, utilities expenses increased $307,000. The Erma Ora Byrd Hall and Center for Contemporary Arts were occupied during the year for the first time. In addition, utility rates increased. Utilities expenses increased $453,000 in fiscal year 2007. The University opened the new residence halls and utility rates increased.
- Depreciation expense increased $913,000 during the year primarily because the two new academic buildings were completed. Depreciation increased $393,000 in fiscal year 2007 primarily because of new residence halls and infrastructure.

Nonoperating Revenues (Expenses)

- Nonoperating revenues from State appropriations increased $374,000 for fiscal year 2008. 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 revenues increased $318,000 in fiscal year 2008, as the proceeds from the 2007 bond issue were invested over the construction period of the project.
- Interest on indebtedness increased $507,000 during fiscal year 2008. Additional interest expenses were incurred for the Wellness Center bonds. The interest on indebtedness increased $628,000 in fiscal year 2007. The increase was related to the additional debt service for the new residence halls.
- Gifts increased $56,000 and $187,000 in fiscal years 2008 and 2007, respectively. Contributions from the Shepherd University Foundation increased in both years.

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 2008	FY 2007	FY 2006
Cash provided (used) by:			
Operating activities	$ (4,871)	$ (4,970)	$ (2,991)
Noncapital financing activities	11,445	11,074	7,586
Capital and related financing activities	9,167	(8,035)	(19,597)
Investing activities	(14,444)	5,413	16,059
Increase in cash	1,297	3,482	1,057
Cash, beginning of year	17,004	13,522	12,465
Cash, end of year	$ 18,301	$ 17,004	$ 13,522

Capital Assets

The following construction projects were completed in fiscal year 2008:

Erma Ora Byrd Hall	$ 9,155,096
Center for Contemporary Arts	13,738,344
Synthetic Turf Field	825,416

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 $2.9 million, $8.4 million, $317,000, and $877,000 were recognized, respectively, in fiscal years 2008, 2007, 2006, and 2005. In addition, $10 million was received from the U.S. Department of Health and Human Services to construct the Erma Ora Byrd Hall. The University expended $1 million, $7.7 million, and $1.3 million during fiscal years 2008, 2007, and 2006, respectively.

Capital Debt

In October 2007, $20,090,000 of Wellness Center Project revenue bonds, Series 2007 (the "Wellness Center Bonds") were sold. The Wellness Center Bonds were issued to finance the costs of planning, design, acquisition, construction and equipping of a new wellness center on the University's campus, and other capital improvements for use by Shepherd University; and to pay the costs of issuance of the Wellness Center Bonds and related costs. The Wellness Center 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 2006, $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 currently in a stable position. The total State tax collections were 100.37% of the amount projected for fiscal year 2008. 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, 2008 AND 2007

	2008	2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 18,300,817	$ 17,004,213
Due from the Commission	1,712	1,228,332
Due from other State agencies	274,240	119,347
Accounts receivable — net	574,717	1,623,931
Loans to students — current portion	152,875	138,353
Inventories	454,884	502,525
Total current assets	19,759,245	20,616,701
NONCURRENT ASSETS:		
Cash and cash equivalents	223,827	279,896
Investments	16,100,645	389,997
Loans to students — net of allowance of $300,015 and $302,471 in 2008 and 2007, respectively	363,388	315,763
Bond issuance costs — net	968,819	607,421
Capital assets — net	107,000,853	98,130,250
Total noncurrent assets	124,657,532	99,723,327
TOTAL	$ 144,416,777	$ 120,340,028

(Continued)

SHEPHERD UNIVERSITY

STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2008 AND 2007

	2008	2007
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	$ 4,338,852	$ 5,104,079
Accrued liabilities	1,327,081	1,080,281
Due to the Commission	945	8
Due to other State agencies	6,330	5,692
Compensated absences — current portion	699,781	715,329
Debt obligation due to Commission — current portion	398,622	384,300
Deferred revenue	864,903	673,727
Deposits held in custody for others	219,174	195,944
Bonds payable — current portion	1,045,000	680,000
Capital lease obligations — current portion	137,919	63,117
Total current liabilities	9,038,607	8,902,477
NONCURRENT LIABILITIES:		
Advances from federal sponsors	582,122	572,626
Compensated absences	401,846	2,153,370
Other postemployment benefits liability	346,219	
Debt obligation due to Commission	1,037,531	1,436,153
Bonds payable	49,867,444	31,656,602
Capital lease obligations	473,358	85,099
Total noncurrent liabilities	52,708,520	35,903,850
Total liabilities	61,747,127	44,806,327
NET ASSETS:		
Invested in capital assets — net of related debt	69,502,765	63,048,547
Restricted for — expendable:		
Loans	98,969	97,172
Debt service	563,326	1,020,769
Other restricted	104,391	63,942
Capital projects	113,114	1,268,572
Total expendable	879,800	2,450,455
Unrestricted	12,287,085	10,034,699
Total net assets	82,669,650	75,533,701
TOTAL	$ 144,416,777	$ 120,340,028

See notes to financial statements. (Concluded)

SHEPHERD UNIVERSITY

THE SHEPHERD UNIVERSITY FOUNDATION, INCORPORATED
A COMPONENT UNIT OF SHEPHERD UNIVERSITY
STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2008 AND 2007

	2008	2007
ASSETS		
CASH AND CASH EQUIVALENTS	$ 1,725,230	$ 1,130,682
PLEDGES RECEIVABLE	853,496	481,283
CONTRIBUTIONS RECEIVABLE	16,240	40,898
ACCRUED INTEREST RECEIVABLE	99,909	114,177
PREPAID EXPENSES	4,019	5,103
INVESTMENTS	21,597,259	21,208,550
EQUIPMENT — Net	6,064	8,384
TOTAL	$ 24,302,217	$ 22,989,077
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	$ 19,953	$ 15,888
Custodial liabilities	2,949,021	2,777,615
Gift annuities payable	173,775	176,493
Total liabilities	3,142,749	2,969,996
NET ASSETS:		
Unrestricted	35,572	1,086,138
Temporarily restricted	2,995,614	2,152,113
Permanently restricted	18,128,282	16,780,830
Total net assets	21,159,468	20,019,081
TOTAL	$ 24,302,217	$ 22,989,077

See notes to financial statements.

SHEPHERD UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
OPERATING REVENUES:		
Student tuition and fees — net of scholarship allowance of $5,928,791 and $5,252,362 in 2008 and 2007, respectively	$ 16,160,544	$ 16,758,957
Contracts and grants:		
Federal	2,872,457	2,699,256
State	3,527,171	2,715,990
Private	127,640	357,055
Interest on student loans receivable	8,824	9,827
Sales and services of educational activities	48,328	43,640
Auxiliary enterprise revenue — net of scholarship allowance of $237,936 and $117,724 in 2008 and 2007, respectively	14,127,268	12,229,062
Service contract revenue — Blue Ridge Community and Technical College		483,416
Other operating revenues	789,762	795,487
Total operating revenues	37,661,994	36,092,690
OPERATING EXPENSES:		
Salaries and wages	20,867,279	19,171,809
Benefits	5,481,766	4,212,205
Supplies and other services	12,109,794	11,734,651
Utilities	2,364,873	2,057,886
Student financial aid — scholarships and fellowships	2,020,741	1,744,441
Depreciation	4,732,390	3,819,848
Fees assessed by the Commission for operations	289,220	265,251
Total operating expenses	47,866,063	43,006,091
OPERATING LOSS	(10,204,069)	(6,913,401)

(Continued)

SHEPHERD UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
NONOPERATING REVENUES (EXPENSES):		
State appropriations	$ 10,708,896	$ 10,335,074
Payments on behalf of Shepherd University	539,013	
Investment income	1,329,282	1,011,595
Interest on indebtedness	(1,980,384)	(1,473,266)
Fees assessed by the Commission for debt service	(180,034)	(189,200)
Gifts	735,743	679,356
Loss on disposal of equipment	(18,662)	(51,262)
Net nonoperating revenues	11,133,854	10,312,297
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	929,785	3,398,896
CAPITAL AND BOND PROCEEDS FROM COMMISSION	3,534,237	8,574,980
CAPITAL GRANTS AND GIFTS	819,754	7,737,382
INCREASE IN NET ASSETS BEFORE CUMULATIVE EFFECT	5,283,776	19,711,258
CUMULATIVE EFFECT OF ADOPTION OF ACCOUNTING PRINCIPLE (Note 2)	1,852,173	
INCREASE IN NET ASSETS	7,135,949	19,711,258
NET ASSETS — Beginning of year	75,533,701	55,822,443
NET ASSETS — End of year	$ 82,669,650	$ 75,533,701

See notes to financial statements.

(Concluded)

THE SHEPHERD UNIVERSITY FOUNDATION, INCORPORATED
A COMPONENT UNIT OF SHEPHERD UNIVERSITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT:				
Cash contributions	$ -	$ 1,259,091	$ 1,163,040	$ 2,422,131
Stock contributions		27,531	38,939	66,470
Other noncash contributions		65,357		65,357
Other revenue	31,365	32,782		64,147
Interest and dividends	82,984	737,840	26,916	847,740
Net realized and unrealized (losses) gains on investments	(694,552)	3,853	51,367	(639,332)
Transfers	(36,701)	(30,489)	67,190	
Net assets released from restrictions	1,252,464	(1,252,464)		
Total revenue and other support	635,560	843,501	1,347,452	2,826,513
EXPENSES:				
Program services:				
Scholarships and awards	1,022,672			1,022,672
College support	145,016			145,016
General and administrative:				
Salaries	204,584			204,584
Investment management fees	135,458			135,458
Printing and reproduction costs	24,059			24,059
Payroll taxes and benefits	42,655			42,655
Depreciation	6,325			6,325
Administrative expense	14,234			14,234
Rent	12,600			12,600
Office supplies and postage	4,910			4,910
Insurance	6,495			6,495
Changes in gift annuities	13,504			13,504
Professional fees	19,436			19,436
Staff development	1,039			1,039
Development	28,560			28,560
Telephone	1,466			1,466
Technology	1,145			1,145
Miscellaneous	1,968			1,968
Total expenses	1,686,126			1,686,126
(DECREASE) INCREASE IN NET ASSETS	(1,050,566)	843,501	1,347,452	1,140,387
NET ASSETS — Beginning of year	1,086,138	2,152,113	16,780,830	20,019,081
NET ASSETS — End of year	$ 35,572	$ 2,995,614	$ 18,128,282	$ 21,159,468

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, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT:				
Cash contributions	$ -	$ 942,531	$ 959,962	$ 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 gains on investments	906,892			906,892
Transfer	(12,700)	(22,675)	35,375	
Net assets released from restrictions	998,022	(998,022)		
Total revenue and other support	2,176,026	444,532	1,117,967	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	444,532	1,117,967	2,336,125
NET ASSETS — Beginning of year	312,512	1,707,581	15,662,863	17,682,956
NET ASSETS — End of year	$ 1,086,138	$ 2,152,113	$ 16,780,830	$ 20,019,081

See notes to financial statements.

SHEPHERD UNIVERSITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	$ 16,316,523	$ 16,576,527
Contracts and grants	6,581,325	3,695,142
Payments to and on behalf of employees	(25,203,058)	(23,342,577)
Payments to suppliers	(12,694,263)	(11,496,543)
Payments to utilities	(2,257,406)	(1,893,906)
Payments for scholarships and fellowships	(2,020,741)	(1,744,441)
Loans issued to students	(140,515)	(119,909)
Collection of loans to students	80,824	117,480
Sales and service of educational activities	48,328	43,640
Auxiliary enterprise charges	14,150,674	12,223,852
Fees assessed by the Commission	(288,283)	(271,794)
Other receipts — net	555,698	1,242,822
Net cash used in operating activities	(4,870,894)	(4,969,707)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	10,708,896	10,395,083
Gifts	735,743	679,356
Federal student loan program — direct lending receipts	12,725,556	12,016,740
Federal student loan program — direct lending payments	(12,725,556)	(12,016,740)
Net cash provided by noncapital financing activities	11,444,639	11,074,439
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Proceeds from capital debt	19,574,000	
Capital and bond proceeds from the Commission	5,971,581	7,495,586
Capital grants and gifts received	819,754	8,816,775
Interest paid on capital debt and leases	(1,909,237)	(1,477,547)
Purchases of capital assets	(13,324,168)	(23,192,743)
Principal paid on capital debt and leases	(1,841,239)	(708,932)
Withdrawals of noncurrent cash and cash equivalents	56,069	1,221,021
Debt service assessed by the Commission for debt service and reserves	(180,034)	(189,200)
Net cash provided by (used in) capital financing activities	9,166,726	(8,035,040)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(20,500,914)	
Proceeds from sales of investments	4,790,266	4,463,232
Interest on investments	1,266,781	949,095
Net cash (used in) provided by investing activities	(14,443,867)	5,412,327
INCREASE IN CASH AND CASH EQUIVALENTS	1,296,604	3,482,019
CASH AND CASH EQUIVALENTS — Beginning of year	17,004,213	13,522,194
CASH AND CASH EQUIVALENTS — End of year	$ 18,300,817	$ 17,004,213

(Continued)

SHEPHERD UNIVERSITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (10,204,069)	$ (6,913,401)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	4,732,390	3,819,848
Recovery of bad debt expense	(23,010)	
Amortization of bond issuance costs	34,396	18,663
Net accretion of premiums/discounts on bonds payable	(23,952)	
Expenses paid on behalf of Shepherd University	539,013	
Changes in assets and liabilities:		
Accounts receivables — net	(180,748)	(1,089,646)
Loans to students — net	(59,691)	(2,429)
Due from the Commission	102,293	(1,040,125)
Due from other State agencies	(154,893)	(35,212)
Inventories	47,641	(58,755)
Accounts payable	(512,715)	528,397
Accrued liabilities	175,654	172,237
Compensated absences	85,101	(130,797)
Other postemployment benefits liability	346,219	
Due to the Commission	937	(6,543)
Due to other State agencies	638	(34,957)
Deferred revenue	191,176	(135,317)
Deposits held in custody for others	23,230	290
Advances from federal sponsors	9,496	(61,960)
NET CASH USED IN OPERATING ACTIVITIES	$ (4,870,894)	$ (4,969,707)
NONCASH TRANSACTIONS:		
Cumulative effect of adoption of accounting principle	$ 1,852,173	$ -
Capital additions in accounts payable	$ 2,460,467	$ 2,712,979
Capital lease additions	$ 550,000	$ -
Bond issuance costs for Wellness Center Revenue Bonds	$ 395,794	$ -

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 the 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.

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 GASB Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements — and Management's Discussion and Analysis — for Public Colleges and Universities* — an amendment of GASB Statement No. 34. The financial statement presentation required by GASB Statements 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 Shepherd University Foundation, Incorporated (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 —an amendment of GASB Statement No. 14*. As a result, the audited financial statements of the Foundation are discretely presented here with the University’s financial statements for the fiscal years ended June 30, 2008 and 2007. The Foundation is a private nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Statements of 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, as amended by GASB Statement No. 37, *Basic Financial Statements — and Management’s Discussion and Analysis — for State and Local Governments: Omnibus — an amendment of GASB Statements No. 21 and No. 34,* and GASB Statement 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 (the “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, 2008 or 2007.

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 to meet current expenses for any purpose.

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

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

Cash and cash equivalents balances on deposit with the State of West Virginia Treasurer's Office (the "State Treasurer") are pooled by the State Treasurer with other available funds of the State for investment purposes by the West Virginia 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 seven investment pools and participant-directed accounts, three of which the University may invest in. These pools have been structured as multiparticipant 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.

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 are (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, are 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 $54,804 and $18,852 for the years ended June 30, 2008 and 2007, 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. The financial statements reflect all adjustments required by GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* as of June 30, 2008 and 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 and Other Postemployment Benefits — The University accounts for compensated absences in accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*.

Effective July 1, 2007, the University adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement provided standards for the measurement, recognition, and display of other postemployment benefit (OPEB) 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 was required to participate in this multiple employer cost sharing plan, the West Virginia Retiree Health Benefit Trust Fund, sponsored by the State of West Virginia. Details regarding this plan can be obtained by contacting the West Virginia Public Employees Insurance Agency ("PEIA"), State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston, WV 25305-0710 or http://www.wvpeia.com.

These statements require entities to accrue for employees' rights to receive compensation for vacation leave or payments in lieu of accrued vacation or sick leave as such benefits are earned and payment becomes probable.

The University's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1-1/2 sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. For employees hired after 1988, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired on July 1, 2001, or later will no longer receive sick leave credit toward insurance premiums when they retire. This liability is now provided for under the multiple employer cost-sharing plan approved by the State.

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

For the year ended June 30, 2007, 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 or OPEB benefits are recorded as a component of benefits expense in 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 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 to 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 nonexchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as State appropriations and investment income.

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 2008 and 2007, the University received and disbursed approximately $12,726,000 and $12,017,000, 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 in 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 2008 and 2007, the University received and disbursed approximately $2,777,000 and $2,475,000, 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.

Recent Statements Issued by the GASB — The GASB has issued GASB 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 GASB 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.

The GASB has issued GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, effective for fiscal years beginning after June 15, 2008. This statement requires endowments to report their land and other real estate investments at fair value. It also requires changes in fair value to be reported as investment income, disclosure of the methods and significant assumptions employed to determine fair value, and disclosure of other information that is currently presented for other investments reported at fair value. The University has not yet determined the effect that the adoption of GASB Statement No. 52 may have on its financial statements.

The GASB has issued GASB Statement No. 53, Accounting and Financial Reporting for Derivative Instruments, effective for fiscal years beginning after June 15, 2009. This statement requires governmental entities to measure most derivative instruments at fair value as assets or liabilities. It also improves disclosure requirements surrounding the entity's derivative instrument activity, its objectives for entering into the derivative instrument, and the instrument's significant terms and risks. The University has not yet determined the effect that the adoption of GASB Statement No. 53 may have on its financial statements.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents as of June 30, 2008 and 2007, are held as follows:

2008	Current	Noncurrent	Total
State Treasurer	$ 17,919,488	$ -	$ 17,919,488
Trustee Bank		223,827	223,827
Bank	381,329		381,329
	$ 18,300,817	$ 223,827	$ 18,524,644

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

Cash and cash equivalents with the State Treasurer include $193,562 in 2008 and $6,455 in 2007 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, 2008 and 2007, was $223,827 and $279,896, respectively, and was invested in U.S. Treasury money market funds.

The combined carrying amount of cash in the bank at June 30, 2008 and 2007, was $381,329 and $400,802, respectively, as compared with the combined bank balance of $438,870 and $486,343, 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 as of June 30, 2008 and 2007, 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. Of the BTI's Consolidated Fund pools and accounts which the University may invest in, three are subject to credit risk: WV Money Market Pool (formerly Cash Liquidity Pool), WV Government Money Market Pool (formerly Government Money Market Pool), and WV Short Term Bond Pool (formerly Enhanced Yield Pool).

WV Money Market (Formerly Cash Liquidity Pool)

Credit Risk — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. For the year ended June 30, 2008, the WV Money Market Pool has been rated AAAm by Standard & Poor's. A Fund rated "AAAm" has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. "AAAm" is the highest principal stability fund rating assigned by Standard & Poor's. As this pool has been rated in the current year, specific information on the credit ratings of the underlying investments of the pool have not been provided for the year ended June 30, 2008, although the underlying investments are similar securities with similar ratings as 2007. For the year ended June 30, 2007, this pool was not rated for credit risk by any organization.

The BTI limits the exposure to credit risk in the WV Money Market 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.

At June 30, 2008, the WV Money Market Pool investments had a total carrying value of $2,358,470,000, of which the University's ownership represents .65 %.

The following table provides information on the credit ratings of the WV Money Market Pool's investments (in thousands) at June 30, 2007:

	Credit Rating *		2007	
Security Type	**Moody's**	**S&P**	**Carrying Value**	**Percent of Pool Assets**
Investments:				
Commercial paper	P1	A-1	$1,015,926	48.89 %
Corporate bonds and notes	Aaa	AAA	98,999	4.76
	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
			261,025	12.56
U.S. agency bonds	Aaa	AAA	46,994	2.26
U.S. Treasury bills	Aaa	AAA	358,725	17.27
Negotiable certificates of deposit	P1	A-1	76,500	3.68
U.S. agency discount notes	P1	A-1	21,655	1.04
Money market funds	Aaa	AAA	185	0.01
Repurchase agreements (underlying securities) — U.S. agency notes	Aaa	AAA	246,821	11.88
Deposits — nonnegotiable certificates of deposit	NR	NR	50,000	2.41
			$2,077,831	100.00 %

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

At June 30, 2007, the University's ownership was .73% of these amounts held by the BTI.

WV Government Money Market Pool (formerly Government Money Market Pool)

Credit Risk — For the year ended June 30, 2008, the WV Government Market Pool has been rated AAAm by Standard & Poor's. A Fund rated "AAAm" has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. "AAAm" is the highest principal stability fund rating assigned by Standard & Poor's. As this pool has been rated in the current year, specific information on the credit ratings of the underlying investments of the pool have not been provided for the year ended June 30, 2008, although the underlying investments are similar securities with similar ratings as 2007. For the year ended June 30, 2007, this pool was not rated for credit risk by any organization.

The BTI limits the exposure to credit risk in the WV 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.

At June 30, 2008, the WV Government Money Market Pool investments had a total carrying value of $187,064,000, of which the University's ownership represents .08%.

The following table provides information on the credit ratings of the WV Government Money Market Pool's investments (in thousands) at June 30, 2007:

	Credit Rating		2007	
Security Type	**Moody's**	**S&P**	**Carrying Value**	**Percent of Pool Assets**
U.S. agency bonds	Aaa	AAA	$ 67,620	29.46 %
U.S. Treasury bills	Aaa	AAA	36,379	15.85
U.S. agency discount notes	P1	A-1	74,143	32.30
Money market funds	Aaa	AAA	9	
Repurchase agreements (underlying securities) — U.S. Treasury notes	Aaa	AAA	51,400	22.39
			$ 229,551	100.00 %

At June 30, 2007, the University's ownership was .25% of these amounts held by the BTI.

WV Short Term Bond Pool (formerly Enhanced Yield Pool)

Credit Risk — The BTI limits the exposure to credit risk in the WV Short Term Bond Pool by requiring all corporate bonds to be rated A (A- in 2007) 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 WV Short Term Bond Pool's investments (in thousands):

	Credit Rating*		2008		2007	
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 %
	Aaa	AAA	48,663	13.75		
	Aaa	NR	2,179	0.62		
	NR	AAA	1,135	0.32		
	AA3	AA	192	0.06		
			52,169	14.75	42,122	18.40
Commercial paper	P1	A-1	7,971	2.25		
Corporate bonds and notes	Aaa	AAA	13,146	3.72	1,667	0.73
	Aa1	AA	12,613	3.56	6,431	2.81
	Aa2	AA	20,860	5.89	950	0.41
	Aa2	A	1,061	0.30	2,177	0.95
	Aa3	AA	11,488	3.25	7,857	3.43
	Aa3	A	4,548	1.28	3,905	1.70
	A1	AA	4,305	1.22	3,034	1.32
	A1	A	8,361	2.36	10,706	4.68
	A2	AA	847	0.24	747	0.33
	A2	A	26,585	7.51	8,188	3.58
	A3	A	10,917	3.08	6,958	3.04
	Baa1	AA-	593	0.17		
	Baa1	A-	2,028	0.57		
	Baa3	BB+	645	0.18		
			117,977	33.33	52,620	22.98
U.S. agency bonds	Aaa	AAA	71,840	20.29	46,075	20.13
U.S. Treasury notes**	Aaa	AAA	81,875	23.13	55,877	24.41
U.S. agency mortgage-backed securities***	Aaa	AAA	5,345	1.51	11,741	5.13
Repurchase agreements (underlying securities) — U.S. agency notes	Aaa	AAA	16,782	4.74	20,485	8.95
			$ 353,959	100 %	$ 228,920	100 %

*NR = Not Rated
**U.S. Treasury issues are explicitly guaranteed by the United States government and are not subject to credit risk.
***U.S. agency mortgage-backed securities are issued by the Government National Mortgage Association and are explicitly guaranteed by the United States government and are not subject to credit risk.

At June 30, 2008 and 2007, the University's ownership represents .36% and .38%, 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 WV Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from the date of purchase. The following table provides information on the weighted average maturities for the various asset types in the WV Money Market Pool:

	2008		2007	
Security Type	**Carrying Value (In thousands)**	**WAM (Days)**	**Carrying Value (In thousands)**	**WAM (Days)**
Repurchase agreements	$ 371,163	1	$ 246,821	2
U.S. Treasury bills	406,426	31	358,725	30
Commercial paper	658,879	29	1,015,926	52
Certificates of deposit	147,001	95	126,500	76
U.S. agency discount notes	212,924	84	21,655	113
Corporate notes	158,000	21	261,025	58
U.S. agency bonds/notes	254,019	111	46,994	156
Money market funds	150,058	1	185	1
	$2,358,470	40	$2,077,831	48

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

	2008		2007	
Security Type	**Carrying Value (In thousands)**	**WAM (Days)**	**Carrying Value (In thousands)**	**WAM (Days)**
Repurchase agreements	$ 53,400	1	$ 51,400	2
U.S. Treasury bills	29,929	58	36,379	29
U.S. agency discount notes	43,249	77	74,143	106
U.S. agency bonds/notes	60,420	84	67,620	60
Money market funds	66	1	9	1
	$ 187,064	54	$ 229,551	49

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

	2008		2007	
Security Type	**Carrying Value (In thousands)**	**WAM (Days)**	**Carrying Value (In thousands)**	**WAM (Days)**
Repurchase agreements	$ 16,782	1	$ 20,485	2
U.S. Treasury bonds/notes	81,875	744	55,877	1,092
Corporate notes	117,997	675	52,620	557
Corporate asset-backed securities	52,169	341	42,122	421
U.S. agency bonds/notes	71,840	1,231	46,075	927
U.S. agency mortgage-backed securities	5,345	570	11,741	814
Commercial paper	7,971	50		
	$ 353,979	707	$ 228,920	700

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 are 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. None of the above pools contain nonnegotiable certificates of deposit. The BTI does not have a deposit policy for custodial credit risk.

4. INVESTMENTS

Investments as of June 30, 2008 and 2007, consist of the following:

	2008	2007
Repurchase agreements	$ 15,649,326	$ -
U.S. Treasury money market fund	451,319	389,997
	$ 16,100,645	$ 389,997

Investments are held with the Trustee Bank and are restricted by the bond indentures and 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, 2008 and 2007, is $451,319 and $389,997, respectively. The repurchase agreements invest 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 the Royal Bank of Canada and the Bond Trustee may agree to in writing. The carrying value at June 30, 2008, was $15,649,326. 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, 2008 and 2007, are as follows:

	2008	2007
Student tuition and fees — net of allowance for doubtful accounts of $181,574 and $202,128 in 2008 and 2007, respectively	$ 340,176	$ 338,601
Accrued interest receivable — Commission	31,825	
Other accrued interest receivable	65,667	
Grants and contracts receivable	137,049	1,285,330
	$ 574,717	$ 1,623,931

6. CAPITAL ASSETS

Summary of capital assets transactions for the University as of June 30, 2008 and 2007, are as follows:

	2008			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 1,120,925	$ -	$ -	$ 1,120,925
Construction in progress	22,455,658	12,246,460	26,311,441	8,390,677
Total capital assets not being depreciated	$ 23,576,583	$12,246,460	$26,311,441	$ 9,511,602
Other capital assets:				
Land improvements	$ 344,279	$ 1,213,092	$ -	$ 1,557,371
Infrastructure	8,797,889	292,377		9,090,266
Buildings	89,839,200	24,805,973		114,645,173
Equipment	10,030,454	1,233,481	208,490	11,055,445
Library books	3,994,494	141,713	41,080	4,095,127
Total other capital assets	113,006,316	27,686,636	249,570	140,443,382
Less accumulated depreciation for:				
Land improvements	102,515	60,478		162,993
Infrastructure	1,269,932	573,739		1,843,671
Buildings	27,862,719	2,885,501		30,748,220
Equipment	6,100,444	1,002,289	189,828	6,912,905
Library books	3,117,039	210,383	41,080	3,286,342
Total accumulated depreciation	38,452,649	4,732,390	230,908	42,954,131
Other capital assets — net	$ 74,553,667	$22,954,246	$ 18,662	$ 97,489,251
Capital asset summary:				
Capital assets not being depreciated	$ 23,576,583	$12,246,460	$26,311,441	$ 9,511,602
Other capital assets	113,006,316	27,686,636	249,570	140,443,382
Total cost of capital assets	136,582,899	39,933,096	26,561,011	149,954,984
Less accumulated depreciation	38,452,649	4,732,390	230,908	42,954,131
Capital assets — net	$ 98,130,250	$35,200,706	$26,330,103	$107,000,853

(Continued)

	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

(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 $13,200,000 as of June 30, 2008.

7. LONG-TERM LIABILITIES

Summary of long-term obligation transactions for the University for the years ended June 30, 2008 and 2007, are as follows:

	2008				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term liabilities:					
Accrued compensated absences	$ 2,868,699	$ 85,101	$1,852,173	$ 1,101,627	$ 699,781
Other postemployment benefits liability		346,219		346,219	
Debt obligation due to Commission	1,820,453		384,300	1,436,153	398,622
Bonds payable	32,336,602	19,969,794	1,393,952	50,912,444	1,045,000
Capital lease obligations	148,216	550,000	86,939	611,277	137,919
Advances from federal sponsors	572,626	9,496		582,122	
Total long-term liabilities	$37,746,596	$ 20,960,610	$3,717,364	$54,989,842	

	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 to 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	

8. BONDS PAYABLE

Bonds payable as of June 30, 2008 and 2007, consisted of the following:

	Interest Rate	Annual Principal Installment Due	Principal Amount Outstanding 2008	Principal Amount Outstanding 2007
Student Fee Revenue Bonds, due through 2033	3.0% to 5.13%	$105,000 to 370,000	$ 5,555,000	$ 5,670,000
Infrastructure Revenue Bonds, due through 2024	2.0% to 4.50%	$125,000 to 240,000	2,865,000	2,995,000
Residence Facilities Revenue Bonds, due through 2035	3.25% to 5.00%	$435,000 to 1,450,000	22,490,000	22,925,000
Wellness Center Facilities Revenue Bonds, due through 2037	3.43% to 4.77%	$435,000 to 1,170,000	19,400,000	
			50,310,000	31,590,000
Discount			(155,162)	(39,169)
Premium			757,606	785,771
			$ 50,912,444	$ 32,336,602

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 the trustee. The Bonds were issued to (1) finance the costs of planning, designing, acquiring equipment, and constructing of certain capital improvements, including the Field House, the expansion and improvement of the Arts Center, a new parking lot, and other capital renovations, repairs, and improvements, (2) establishing of a debt service reserve fund, (3) establishing of a capitalized interest fund to pay interest on the Bonds due on December 1, 2003, and (4) paying the costs of issuance of the Bonds and related costs.

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

The debt service reserve fund must maintain deposits totaling $390,108 as required by the Indenture. Deposits in the debt service reserve funds totaled $483,390 and $461,312 as of June 30, 2008 and 2007, respectively.

For both the years ended June 30, 2008 and 2007, capital financing fees ("fees") of $69 per student per semester based on full-time equivalent (FTE) enrollment, are pledged to the Bonds with pro rata reductions for those students 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, 2008 and 2007, 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 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.

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 ended June 30, 2008 and 2007, 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, 2008 and 2007, 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, the "Project") Series 2005 (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, 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 years ended June 30, 2008 and 2007, net revenues when combined with other monies legally available for payment of debt service were in excess of the maximum annual debt service.

Wellness Center revenue bonds — In October 2007, $20,090,000 of revenue bonds (Shepherd University Wellness Center Projects, the “Project”) Series 2007 (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 October 30, 2007, 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 new wellness center the University’s campus and other capital improvements for use by the University.

The Bonds consist of $4,310,000 Serial Bonds with varying interest rates from 3.43% to 3.95%, and mature serially from June 1, 2008 to June 1, 2017. Term Bonds of $2,710,000, $3,425,000, $4,280,000, and $5,365,000 bear varying interest rates from 4.32% to 4.77% and mature June 1, 2022, June 1, 2027, June 1, 2032, and June 1, 2037, respectively. Term Bonds maturing on June 1, 2022 are subject to mandatory redemption prior to maturity from June 1, 2018 through 2022. Term Bonds maturing on June 1, 2027 are subject to mandatory redemption prior to maturity from June 1, 2023 through 2027. Term Bonds maturing on June 1, 2032, are subject to mandatory redemption prior to maturity from June 1, 2028 through 2032. Term Bonds maturing on June 1, 2037, are subject to mandatory redemption prior to maturity from June 1, 2033 through 2037. 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, 2022, are subject to redemption prior to maturity on or after December 1, 2017, 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 2008 semester, student fees and revenues collected from the new facilities are used to operate the facility, and with other sources of revenues identified in the pledge, pay debt service. Gross operating revenues 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, 2008, gross 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, 2008, are as follows:

Years Ending June 30	2003 Bonds Principal	2003 Bonds Interest	2004 Bonds Principal	2004 Bonds Interest
2009	$ 115,000	$ 269,875	$ 135,000	$ 113,485
2010	120,000	266,052	140,000	109,840
2011	125,000	261,512	145,000	105,640
2012	130,000	256,412	150,000	101,000
2013	135,000	251,045	155,000	95,900
2014–2018	760,000	1,160,294	855,000	388,775
2019–2023	975,000	947,763	1,045,000	198,175
2024–2028	1,240,000	666,221	240,000	10,800
2029–2033	1,585,000	306,346		
2034–2037	370,000	9,481		
Total	$ 5,555,000	$ 4,395,001	$ 2,865,000	$ 1,123,615

Years Ending June 30	2005 Bonds		2007 Bonds	
2009	$ 450,000	$ 1,077,156	$ 345,000	$ 877,063
2010	460,000	1,062,531	355,000	864,988
2011	480,000	1,046,431	370,000	852,563
2012	495,000	1,029,631	385,000	837,763
2013	515,000	1,011,688	400,000	822,363
2014–2018	2,895,000	4,728,625	2,255,000	3,846,262
2019–2023	3,680,000	3,948,750	2,845,000	3,251,749
2024–2028	4,690,000	2,932,500	3,580,000	2,518,624
2029–2033	5,990,000	1,636,000	4,480,000	1,621,063
2034–2037	2,835,000	214,250	4,385,000	504,225
Total	$ 22,490,000	$ 18,687,562	$ 19,400,000	$ 15,996,663

Years Ending June 30	Total	
2009	$ 1,045,000	$ 2,337,579
2010	1,075,000	2,303,411
2011	1,120,000	2,266,146
2012	1,160,000	2,224,806
2013	1,205,000	2,180,996
2014–2018	6,765,000	10,123,956
2019–2023	8,545,000	8,346,437
2024–2028	9,750,000	6,128,145
2029–2033	12,055,000	3,563,409
2034–2037	7,590,000	727,956
Total	$ 50,310,000	$ 40,202,841

9. COMPENSATED ABSENCES LIABILITY AND OTHER POST EMPLOYMENT BENEFITS

Composition of the compensated absence liability as of June 30, 2008 and 2007, is as follows:

	2008	2007
Health or life insurance benefits	$ -	$ 1,852,173
Accrued vacation leave	1,101,627	1,016,526
	$ 1,101,627	$ 2,868,699

For the year ended June 30, 2007, the cost of health and life insurance benefits paid by the University was based on a combination of years of service and age in accordance with GASB Statement No. 16. For the year ended June 30, 2007, the amount paid by the University for extended health or life insurance coverage retirement benefits totaled approximately $64,593. As of June 30, 2007, there were 33 retirees currently receiving these benefits.

For the year ended June 30, 2008, with the adoption of GASB Statement No. 45, OPEB costs are accrued based upon invoices received from PEIA based upon actuarial determined amounts. At June 30, 2008, the noncurrent liability related to OPEB costs was $346,219. For the year ended June 30, 2008, the University recorded a cumulative effect of the adoption of this accounting principle of $1,852,173, an amount equal to the June 30, 2007, liability for the extended health or life insurance benefit previously recorded in accordance with GASB Statement No. 16. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was $1,630,308 and $745,076, respectively, during 2008. As of and for the year ended June 30, 2008, there were 33 retirees 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 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. In addition, the University received proceeds from construction period interest revenues. State lottery funds will be used to repay the debt, although University revenues are pledged if lottery funds prove to be insufficient. As of June 30, 2008, the University has recognized all of the amount authorized. Additionally, the University received $803,853 from construction period interest proceeds.

Debt services assessed as of June 30, 2008 and 2007, are as follows:

	2008	**2007**
Principal	$ 384,300	$ 381,118
Interest	83,707	92,758
Other	96,327	96,442
	$ 564,334	$ 570,318

11. UNRESTRICTED NET ASSETS

The University did not have any designated net assets as of June 30, 2008 or 2007.

12. RETIREMENT PLANS

Substantially, all full-time employees of the University participate in either the West Virginia Teachers' retirement System (the "STRS") or the Teachers' Insurance and Annuities Association — College Retirement Equities Fund (the "TIAA-CREF"). 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 New Educators Money 401(a) basic retirement plan ("Educators Money"). New hires have the choice of either plan. As of June 30, 2008 and 2007, only one employee has elected this plan.

Total contributions to the Great West for the years ended June 30, 2008, 2007, and 2006, were $3,256, $5,948, and $2,734, respectively, which consisted of equal contributions from the University and the covered employee in 2008, 2007, and 2006 of $1,628, $2,974, and $1,367, respectively.

The STRS is a cost-sharing, public employee retirement system. Employer and employee contribution rates are established annually by the State Legislature. The contractual maximum contribution rate is 15%. 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, 2008 and 2007. Required employee contributions were at the rate of 6% of total annual salary for the years ended June 30, 2008 and 2007. 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, 2008, 2007, and 2006 were $126,050, $132,455, and $133,519, respectively, which consisted of $88,408, $93,034, and $94,195 from the University in 2008, 2007, and 2006, respectively, and $37,641, $39,421, and $39,324 from the covered employees in 2008, 2007, and 2006, 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 and Educators Money are defined contribution benefit plans in which benefits are based solely upon amounts contributed, plus investment earnings. Employees who elect to participate in these plans 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, 2008, 2007, and 2006, were $2,011,173, $1,835,519, and $1,721,486, respectively, which consisted of equal contributions from the University and covered employees in 2008, 2007, and 2006 of $1,005,587, $917,759, and $860,743, respectively.

The University's total payroll for the years ended June 30, 2008 and 2007, was $20,685,142 and $19,030,299, respectively, and total covered employees' salaries in the STRS, TIAA-CREF, and Educators Money were $665,332, $16,759,779, and $27,137 in 2008, and $693,805, $15,295,991, and $49,568 in 2007, 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 its 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, 2008 and 2007, the Foundation's net assets (including unrealized gains) totaled $21,159,468 and $20,019,081, 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, 2008 and 2007, the Foundation contributed $702,312 and $653,371, 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 Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates. There are no arbitrage rebate liabilities that have been recorded in the financial statements as of June 30, 2008 or 2007.

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 (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, 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) establish a debt service reserve fund, (3) establish a capitalized interest fund to pay interest on the Bonds due on December 1, 2003, and (4) pay 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 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; and pay the costs of issuance of the Series 2005 Bonds.

In October 2007, $20,090,000 of Wellness Center revenue bonds, Series 2007 (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 October 30, 2007, 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 new wellness center on the University's campus and other capital improvements for use by Shepherd University; and to pay the costs of issuance of the Bonds and related costs.

Condensed Statement of Net Assets as of June 30, 2008 and 2007:

	Student Fee Revenue Bonds 2003		Infrastructure Revenue Bonds 2004		Residence Facilities Projects Revenue Bonds 2005		Wellness Center Revenue Bonds 2007	
	2008	2007	2008	2007	2008	2007	2008	2007
Assets:								
Current assets	$ 731,621	$ 668,748	$ 232,688	$ 168,078	$ 6,566,833	$ 6,558,521	$ 240,350	$ -
Noncurrent assets	4,946,250	5,114,485	3,105,292	3,339,607	21,822,828	20,507,458	21,536,395	
Total assets	$ 5,677,871	$5,783,233	$3,337,980	$3,507,685	$28,389,660	$27,065,979	$21,776,745	$ -
Liabilities								
Current liabilities	137,638	161,426	144,457	139,934	1,515,776	1,156,720	1,562,152	
Noncurrent liabilities	5,440,000	5,555,000	2,730,000	2,865,000	23,250,974	23,275,771	18,934,794	
Total liabilities	5,577,638	5,716,426	2,874,457	3,004,934	24,766,749	24,432,491	20,496,946	
Net assets (deficit):								
Invested in capital assets — net of related debt	(1,368,914)	(1,316,136)	145,752	245,808	(2,352,311)	(3,621,206)	(13,780,632)	
Restricted:								
Debt service	624,632	604,915	85,095	88,894	311,626	326,960	314,159	
Capital projects	113,114						14,571,934	
Unrestricted	731,401	778,028	232,675	168,049	5,663,596	5,927,734	174,337	
Total net assets (deficit)	100,233	66,807	463,522	502,751	3,622,911	2,633,488	1,279,799	
Total net assets (deficit) and liabilities	$ 5,677,871	$5,783,233	$3,337,980	$3,507,685	$28,389,660	$27,065,979	$21,776,745	$ -

Condensed Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2008 and 2007:

	Student Fee Revenue Bonds 2003		Infrastructure Revenue Bonds 2004		Residence Facilities Projects Revenue Bonds 2005		Wellness Center Revenue Bonds 2007	
	2008	2007	2008	2007	2008	2007	2008	2007
Operating:								
Operating revenues	$ 451,809	$ 541,202	$ 311,693	$ 314,607	$ 13,109,582	$ 12,738,049	$1,398,695	$ -
Operating expenses	(171,730)	(166,668)	(235,796)	(215,382)	(11,352,737)	(11,572,491)	(10,002)	
Net operating income	280,079	374,534	75,896	99,225	1,756,845	1,165,558	1,388,694	
Nonoperating:								
Nonoperating revenues	26,442	21,191	1,003	7,094	299,579	450,024	501,166	
Nonoperating expenses	(273,095)	(276,483)	(116,128)	(119,205)	(1,067,001)	(1,087,353)	(84,278)	
Net nonoperating income	(246,653)	(255,292)	(115,125)	(112,111)	(767,422)	(637,329)	416,888	
Transfers						3,983,094	(525,783)	
Increase (decrease) in net assets	33,426	119,242	(39,229)	(12,886)	989,423	4,511,323	1,279,799	
Net assets (deficit) — beginning of year	66,807	(52,435)	502,751	515,637	2,633,488	(1,877,835)		
Net assets (deficit) — end of year	$ 100,233	$ 66,807	$ 463,522	$ 502,751	$ 3,622,911	$ 2,633,488	$1,279,799	$ -

Condensed Statement of Cash Flows for the year ended June 30, 2008 and 2007:

	Student Fee Revenue Bonds 2003		Infrastructure Revenue Bonds 2004		Residence Facilities Projects Revenue Bonds 2005		Wellness Center Revenue Bonds 2007	
	2008	2007	2008	2007	2008	2007	2008	2007
Net cash provided by operating activities	$ 452,060	$ 540,302	$ 311,748	$ 313,423	$ 2,797,313	$ 1,653,362	$1,378,922	$ -
Net cash used in capital and related financing	(708,077)	(389,258)	(246,605)	(1,481,573)	(4,111,039)	(978,686)	(1,289,872)	
Net cash provided by investing activities	296,595	23,101		1,232,368	1,398,360	5,202,551	75,516	
Increase in cash and cash equivalents	40,578	174,145	65,143	64,218	84,635	5,877,227	164,566	
Cash and cash equivalents — beginning of year	686,962	512,817	162,960	98,742	5,877,227			
Cash and cash equivalents — end of year	$ 727,540	$ 686,962	$ 228,103	$ 162,960	$ 5,961,862	$ 5,877,227	$ 164,566	$ -

17. COMPONENT UNIT'S DISCLOSURES

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Accounting — The financial statements of the Shepherd University Foundation, Inc. are presented on the accrual basis of accounting, in accordance with 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. Restrictions relate to many different scholarships and on construction of fixed assets.

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. Restrictions are to provide assistance and support for the students, facilities, and programs of Shepherd University.

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

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

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

Advertising — Advertising costs are expensed as incurred and amount to $5,344 and $2,910 for the years ended June 30, 2008 and 2007, respectively.

Reclassifications — Certain 2007 amounts have been reclassified to conform with 2008 classifications. Such reclassifications had no effect on the Foundation's financial position and results of operations.

Property and Equipment — Purchased assets are recorded at cost. Donated assets retained by the Foundation 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. Non-cash contributions received that are retained or passed through to Shepherd University are recorded at their current or appraised value at the date they are contributed.

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.

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

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, 2017.

Pledges receivable as of June 30, 2008 and 2007, 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.

	2008	2007
Receivable in less than one year	$ 276,446	$ 122,679
Receivable in one to five years	618,663	367,249
Receivable in six to ten years	30,000	54,000
Total pledges receivable	925,109	543,928
Less discount to net present value	(71,613)	(62,645)
Total pledges receivable	$ 853,496	$ 481,283

B. 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, 2008 and 2007, are composed of the following:

Description	Cost	Market
2008		
Cash and temporary investments	$ 1,708,314	$ 1,710,925
U.S. government securities	9,008,690	9,737,564
Corporate bonds and notes	487,385	489,399
Common stocks	9,292,240	9,510,567
Investment securities	$ 20,496,629	$ 21,448,455

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

The investment in real estate is comprised of the following:

Description	Cost	Accumulated Depreciation	Net Book Value
2008			
Land	$ 40,000	$ -	$ 40,000
Building	160,202	51,398	108,804
	$ 200,202	$ 51,398	$ 148,804
2007			
Land	$ 40,000	$ -	$ 40,000
Building	160,202	47,393	112,809
	$ 200,202	$ 47,393	$ 152,809

Summary of the Foundation's investments as of June 30, 2008 and 2007, is as follows:

Description	Cost	Market
2008		
Investment securities	$ 20,496,629	$ 21,448,455
Real estate	148,804	148,804
	$ 20,645,433	$ 21,597,259
2007		
Investment securities	$ 19,451,881	$ 21,055,741
Real estate	152,809	152,809
	$ 19,604,690	$ 21,208,550

C. EQUIPMENT

Equipment consists of the following:

	2008	2007
Office equipment (at cost)	$ 16,019	$ 16,019
Accumulated depreciation	(9,955)	(7,635)
Net book value	$ 6,064	$ 8,384

D. 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, 2008 and 2007, are as follows:

	2008	2007
Custodial receipts	$ 307,547	$ 761,025
Custodial payments	(366,899)	(667,092)
Interest and gains on investments	230,758	123,376
Net increase in custodial liabilities	$ 171,406	$ 217,309

E. GIFT ANNUITIES

Gift annuities payable consist of the following liabilities:

	2008	2007
Daniel and Orpha Cowgill Annuity	$ 41,203	$ 42,689
James K. Wright, Jr. Annuity	41,150	43,352
Benjamin and Mary Lou Mehrling Annuity	5,223	5,414
James K. and Gladys L. Wright Annuity	17,721	18,464
MEO Annuity	68,478	66,574
Total	$ 173,775	$ 176,493

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.

F. 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, 2008 and 2007, was $9,467 and $8,245, respectively.

G. 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.

H. 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 2008 and 2007, 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.

I. RELATED PARTY

The Foundation is a component unit of Shepherd University (the "University"). The Foundation utilizes space owned by the University but does not pay rent. In-kind revenue and expenses of $12,600 has been recorded for the use of this space as of June 30, 2008 and 2007.

18. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2008 and 2007, the following represents operating expenses within both natural and functional classifications:

	2008							
	Salaries and Wages	**Benefits**	**Supplies and Other Services**	**Utilities**	**Scholarships and Fellowships**	**Depreciation**	**Fees Assessed by the Commission**	**Total**
Instruction	$ 9,588,716	$2,326,788	$ 1,009,817	$ 364	$ -	$ -	$ -	$12,925,685
Research	6,397	1,039	10,181					17,617
Public service	196,315	25,231	484,808	343				706,697
Academic support	1,635,085	439,008	714,907	1,513				2,790,513
Student services	2,081,033	525,647	1,280,952	1,024				3,888,656
General institutional support	2,317,398	760,804	1,360,781	629				4,439,612
Operations and maintenance of plant	1,371,970	402,798	1,679,315	1,256,822				4,710,905
Student financial aid					2,020,741			2,020,741
Auxiliary enterprises	3,670,365	1,000,451	5,569,033	1,104,178				11,344,027
Depreciation						4,732,390		4,732,390
Other							289,220	289,220
Total	$20,867,279	$5,481,766	$12,109,794	$2,364,873	$2,020,741	$4,732,390	$ 289,220	$47,866,063

	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

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS 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, 2008, and have issued our report thereon dated October 28, 2008, 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 28, 2008