

# Shepherd University Research Corporation

Financial Statements as of and for the Year Ended  
June 30, 2009, Supplemental Schedule for the Year  
Ended June 30, 2009, Independent Auditors' Report,  
and Reports Required by OMB Circular A-133  
for the Year Ended June 30, 2009

# SHEPHERD UNIVERSITY RESEARCH CORPORATION

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Shepherd University Research Corporation:

We have audited the accompanying statement of net assets of Shepherd University Research Corporation (the "Corporation") as of June 30, 2009, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the management of the Corporation. Our responsibility is to express an opinion on these financial statements based on our audit.

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 of America. 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 Corporation'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 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 audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Corporation, at June 30, 2009, and its revenues, expenses, and changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 to 5, which is the responsibility of the Corporation's management, is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. 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 express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Corporation taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2009, is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is not a required part of the basic financial statements. This schedule is the responsibility of the management of the Corporation. Such information has been subjected to the auditing procedures applied in our audit of the 2009 financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the 2009 financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2009, on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 2, 2009

# Shepherd University Research Corporation Management's Discussion and Analysis (Unaudited)

## **About Shepherd University Research Corporation**

Shepherd University Research Corporation ("the Corporation") is a non-profit entity that was incorporated in November 2005. The Corporation was founded to function as a charitable, educational, and scientific corporation affiliated with Shepherd University ("the University") and to provide support for and assistance to the University in its operations. The Corporation's operating activities include the facilitation of research and development grants as well as the promotion and support of research at the University. In addition, the Corporation was established to provide evaluation, development, patenting, management and marketing services for the faculty, staff, and students of the University.

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

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 Corporation'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 Corporation as of June 30, 2009. 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 Corporation. They are also able to determine how much the Corporation 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 Corporation.

Net assets are divided into two major categories. The first category, invested in capital assets, provides the Corporation's equity in property, plant, and equipment owned by the institution. The second category is unrestricted net assets. Unrestricted assets are available to the Corporation for any lawful purpose of the institution.

## **Assets**

Cash and Cash Equivalents increased \$48,000 during fiscal year 2009 as the indirect costs recovered from the West Virginia Department of Health and Human Services Medicaid Transformation Grant increased due to an increase in direct costs to which the indirect cost rate is applied.

Grants and Contracts Receivable increased \$287,000 over fiscal year 2008 because the amount due from the West Virginia Department of Health and Human Services for the Medicaid Transformation Grant increased caused by increased spending under the grant during fiscal year 2009.

## **Liabilities**

Accounts Payable increased \$270,000 over fiscal year 2008 because the amount due to Shepherd University and the subcontractor for the Medicaid Transformation Grant increased caused by increased spending under the grant during fiscal year 2009.

## **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 Corporation, both operating and nonoperating, and the expenses paid by the corporation, operating and nonoperating, and any other revenues, expenses, gains, and losses received or spent by the Corporation.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the Corporation. 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, revenues from Investment Income are nonoperating because they are not derived from the operational activities of the Corporation.

### **Operating Revenues**

State Grants and Contracts revenues increased \$969,000 over fiscal year 2008 because revenues from the Medicaid Transformation Grant increased.

### **Operating Expenses**

Salaries and Wages, Benefits, and Supplies and other Services increased \$131,000, \$14,000, and \$797,000 respectively as the Medicaid Transformation grant activity increased based on progress of work performed under the grant during fiscal year 2009.

## **Statement of Cash Flows**

The final statement presented by the Corporation is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the Corporation 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 Corporation derived \$48,000 from these activities. 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 interest received from investing activities. The Corporation derived little or no cash from the activities included in sections two, three and four. 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.

### **Economic Outlook**

Because the need for the services provided by the Medicaid Transformation Grant will expand, the economic outlook for the Corporation is positive. The University has hired a Director of Corporate and Government Relations to pursue additional grants. It is anticipated that the Corporation will build on the success of the Medical Transformation Grant and continue to grow.

# SHEPHERD UNIVERSITY RESEARCH CORPORATION

## STATEMENT OF NET ASSETS AS OF JUNE 30, 2009

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### ASSETS

#### CURRENT ASSETS:

Cash and cash equivalents	\$ 66,902
Grants and contracts receivable	<u>499,970</u>

Total current assets	<u>566,872</u>
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#### NONCURRENT ASSETS:

Capital assets — net	<u>5,445</u>
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Total noncurrent assets	<u>5,445</u>
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TOTAL ASSETS	<u>\$ 572,317</u>
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### LIABILITIES AND NET ASSETS

#### CURRENT LIABILITIES:

Accounts payable	<u>\$ 460,208</u>
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Total current liabilities	<u>460,208</u>
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#### NET ASSETS:

Invested in capital assets	5,445
Unrestricted	<u>106,664</u>

Total net assets	<u>112,109</u>
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TOTAL NET ASSETS AND LIABILITIES	<u>\$ 572,317</u>
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See notes to financial statements.

# SHEPHERD UNIVERSITY RESEARCH CORPORATION

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2009

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OPERATING REVENUES — Contracts and grants:	
Federal	\$ 6,775
State	<u>1,446,233</u>
Total operating revenues	<u>1,453,008</u>
OPERATING EXPENSES:	
Salaries and wages	180,956
Benefits	17,476
Supplies and other services	1,188,952
Utilities	856
Depreciation	<u>1,437</u>
Total operating expenses	<u>1,389,677</u>
OPERATING INCOME	<u>63,331</u>
NONOPERATING REVENUES:	
Investment income	<u>17</u>
Net nonoperating revenues	<u>17</u>
INCREASE IN NET ASSETS	63,348
NET ASSETS — Beginning of year	<u>48,761</u>
NET ASSETS — End of year	<u>\$ 112,109</u>

See notes to financial statements

# SHEPHERD UNIVERSITY RESEARCH CORPORATION

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2009

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CASH FLOWS FROM OPERATING ACTIVITIES:	
Contracts and grants	\$ 1,166,507
Payments to and on behalf of employees	(132,638)
Payments to suppliers	(984,751)
Payments for utilities	<u>(856)</u>
Net cash provided by operating activities	<u>48,262</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES — Net cash provided by noncapital financing activities	<u>-</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES — Net cash used in capital financing activities	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES — Investment income	<u>17</u>
INCREASE IN CASH AND CASH EQUIVALENTS	48,279
CASH AND CASH EQUIVALENTS — Beginning of year	<u>18,623</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 66,902</u>
RECONCILIATION OF NET OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 63,331
Adjustments to reconcile net operating income to net cash provided by operating activities:	
Depreciation expense	1,437
Changes in assets and liabilities:	
Accounts receivable — net	(286,501)
Accounts payable	204,201
Accrued liabilities	<u>65,794</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 48,262</u>

See notes to financial statements.

# SHEPHERD UNIVERSITY RESEARCH CORPORATION

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

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### 1. ORGANIZATION

Shepherd University Research Corporation (the “Corporation”) is a not-for-profit corporation incorporated in West Virginia, pursuant to the laws of the State of West Virginia (the “State”). The purpose of the Corporation is to foster, support, and assist in any research and economic development activities consistent with the educational objectives and mission of Shepherd University (the “University”). The Corporation has been designated by the University to fulfill the role of public institutions to work in partnership with business, industry, or government. The Corporation encourages the acceptance of gifts, grants, contracts, and equipment, and the sharing of facilities, equipment, and skilled personnel to promote and develop joint, applied research and development, technical assistance, and instructional programs in the State. The Corporation is considered a component unit of the University.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Corporation have been prepared in accordance with accounting principles generally accepted in the United States of America (“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 Corporation’s assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows.

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

**Reporting Entity** — The Corporation is included in the financial statements of the University (its parent), as the University is the sole member of the nonstock, not-for-profit corporation. The University is an operating unit of the West Virginia Higher Education Fund and represents separate funds of the State that are not included in the State’s general fund. The University is a separate entity which, along with all State institutions of higher education, the West Virginia Higher Education Policy Commission (which includes West Virginia Network for Educational Telecomputing) (the “Commission”), and the 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 Corporation, including Shepherd Institute for Interdisciplinary Research, Inc. (SIIR). The basic criteria for inclusion in the accompanying financial statements is the exercise of oversight responsibility derived from the Corporation’s ability to significantly influence operations and accountability for fiscal matters of related entities.

**Financial Statement Presentation** — GASB Statements No. 35 and No. 38 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 Corporation as a whole. Net assets are classified into four categories according to external donor restrictions or availability of assets for satisfaction of Corporation obligations. The Corporation's net assets are classified as follows:

*Invested in Capital Assets* — This represents the Corporation's total investment in capital assets, net of depreciation.

*Restricted Net Assets — Expendable* — This includes resources for which the Corporation is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties. The Corporation does not have any restricted expendable net assets at June 30, 2009.

*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 Corporation does not have any restricted nonexpendable net assets at June 30, 2009.

*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 Corporation, and may be used at the discretion of the Board of Directors to meet current expenses for any purpose.

**Basis of Accounting** — For financial reporting purposes, the Corporation is considered a special-purpose government engaged only in business-type activities. Accordingly, the Corporation'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 Corporation considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

**Capital Assets** — Capital assets include equipment and furniture. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 5 to 12 years for furniture and equipment.

**Risk Management** — The State's Board of Risk and Insurance Management (BRIM) provides general liability coverage to the Corporation and its employees. Such coverage may be provided to the Corporation 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 Corporation or other participants in BRIM's insurance programs. As a result, management does not expect significant differences between the premiums the Corporation is currently charged by BRIM and the ultimate cost of that insurance based on the Corporation's actual loss experience. In the event such differences arise between estimated premiums currently charged by BRIM to the Corporation and the Corporation's ultimate actual loss experience, the difference will be recorded, as the change in estimate becomes known.

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

*Operating Revenues* — Operating revenues include activities that have the characteristics of exchange transactions, such as most federal and state grants and contracts.

*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 investment income.

**Use of Restricted Net Assets** — The Corporation 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 Corporation attempts to utilize restricted funds first when practicable.

**Government Grants and Contracts** — Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The Corporation 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.

**Tax Status** — The Corporation has applied for and expects to receive from the Internal Revenue Service an exemption from taxation under Section 501(c)(3) of the Internal Revenue Code as an entity organized for educational, research, and economic development purposes.

**Use of Estimates** — 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

**Newly Adopted Statements Issued by the GASB** — During 2009, the Corporation adopted GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, as required. The adoption of this statement had no impact on the financial statements.

During 2009, the GASB issued GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective immediately. This statement identifies the sources of accounting principles and provides the framework for selecting the principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with generally accepted accounting principles. The Corporation adopted GASB Statement No. 55 upon issuance.

During 2009, the GASB also issued GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, effective immediately. This statement establishes accounting and financial reporting standards for related-party transactions, subsequent events, and going concern considerations. The Corporation adopted GASB Statement No. 56 upon issuance.

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

The GASB has issued 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 Corporation 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

Both the carrying amount and the bank balance of cash in bank at June 30, 2009, was \$66,902, with the full amount of this balance covered by federal depository insurance.

### 4. CAPITAL ASSETS

The summary of capital asset transactions for the Corporation for the years ended June 30, 2009, is as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
Capital assets — equipment	<u>\$ 7,189</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,189</u>
Total capital assets	7,189	-	-	7,189
Less accumulated depreciation — equipment	<u>307</u>	<u>1,437</u>	<u>-</u>	<u>1,744</u>
Capital assets — net	<u><u>\$ 6,882</u></u>	<u><u>\$ (1,437)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,445</u></u>

The Corporation's capitalization threshold was \$5,000 for the year ended June 30, 2009.

### 5. RELATED-PARTY TRANSACTIONS

A summary of balances and transactions with the University as of and for the year ended June 30, 2009, is as follows:

Grants and contracts receivable	\$ 499,970
Accounts payable	93,896
Payroll and benefits expense	198,432

## 6. UNRESTRICTED NET ASSETS

At June 30, 2009, the Corporation has no designated net assets.

## 7. RETIREMENT PLAN

All eligible employees of the Corporation participate in the Teachers Insurance and Annuities Association — College Retirement Equities Fund (TIAA-CREF). The TIAA-CREF is a defined contribution plan in which benefits are based solely upon amounts contributed plus investment earnings. Each employee who elects to participate in this plan is required to make a contribution equal to 6% of total annual compensation. The Corporation matches the employees' 6% contributions. Contributions are immediately and fully vested. In addition, employees may elect to make additional contributions to TIAA-CREF, which is not matched by the Corporation.

Total contributions to the TIAA-CREF for the year ended June 30, 2009, was \$5,886, which consisted of \$2,943, from the Corporation and \$2,943, from employees.

The Corporation's total payroll for the year ended June 30, 2009, was \$180,956. Total covered employees' salaries in TIAA-CREF were \$49,050.

## 8. CONTINGENCIES

The nature of the educational industry is such that, from time to time, claims will be presented against universities 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 Corporation would not seriously impact the financial status of the Corporation.

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

## 9. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the year ended June 30, 2009, the following table represents operating expenses within both natural and functional classifications:

	<b>Salaries and Wages</b>	<b>Benefits</b>	<b>Supplies and Other Services</b>	<b>Utilities</b>	<b>Depreciation</b>	<b>Total</b>
Instruction	\$ 600	\$ -	\$ 6,175	\$ -	\$ -	\$ 6,775
Public service	179,131	17,440	1,153,898			1,350,469
General institutional support	1,225	36	28,879	856		30,996
Depreciation					1,437	1,437
Total	<u>\$180,956</u>	<u>\$17,476</u>	<u>\$1,188,952</u>	<u>\$856</u>	<u>\$1,437</u>	<u>\$1,389,677</u>

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## **SUPPLEMENTAL SCHEDULE**

# SHEPHERD UNIVERSITY RESEARCH CORPORATION

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2009

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Federal Agency	Source	Federal CFDA No.	Indirect Agency	Federal Expenditures
<b>Research and Development:</b>				
National Science Foundation:				
Archaeology	D	47.0716015		\$ 2,177
Computer and Information Science and Engineering	D	47.070		4,598
West Virginia Department of Health and Human Services — Medicaid Transformation Grants	I	93.793	WV Dept of Health & Human Services	<u>1,446,233</u>
Total Research and Development Cluster				<u>1,453,008</u>
Total Federal Expenditures				<u>\$1,453,008</u>

See notes to schedule of expenditures of federal awards.

# SHEPHERD UNIVERSITY RESEARCH CORPORATION

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2009

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1. The purpose of the Schedule of Expenditures of Federal Awards (the “Schedule”) is to present a summary of the expenditures of Shepherd University Research Corporation (the “Corporation”) for the year ended June 30, 2009, which have been financed by the federal government. For purposes of the Schedule, federal awards have been classified into two types: direct federal funds (D), and indirect federal funds (i) received from nonfederal organizations made under federally sponsored programs conducted by those organizations.
2. The Schedule is prepared on the accrual basis of accounting.
3. Catalog of Federal Domestic Assistance (CFDA) numbers are presented for those programs for which such numbers are available. When CFDA numbers are not available, contract numbers are presented. If a contract number is not available, it is presented as .999.
4. U.S. Office of Management and Budget (OMB) Circular A-21 (A-21), *Cost Principles for Educational Institutions*, requires submission of a Certificate of Facilities and Administrative (“F&A”) Costs (the “Certificate”) to an institution’s cognizant agency. The Certificate is prepared by the Corporation and is used in negotiations with its cognizant agency, the Department of Health and Human Services ( the “DHHS”), in determining a rate at which the Corporation will be reimbursed for the F&A costs associated with the completion of sponsored research.

On June 19, 2008, DHHS approved F&A cost recovery rates effective from January 1, 2008 through June 30, 2010. The approved F&A rate was 43%. The F&A cost rate structure is as follows:

<b>Rate Type</b>	<b>Negotiated Rate</b>
Organized research — off-campus	18 %
Instruction — on-campus	43
Organized research — on-campus	43

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

To the Board of Directors of  
Shepherd University Research Corporation:

We have audited the financial statements of the Shepherd University Research Corporation (the "Corporation") as of and for the year ended June 30, 2009, and have issued our report thereon dated October 2, 2009. 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 of America.

### **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 *deficiency* in internal control 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal controls, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our considerations of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 Corporation'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 of the Board of Directors and management of the Corporation and Shepherd University, federal and state awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Deloitte & Touche LLP*

October 2, 2009

## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors of  
Shepherd University Research Corporation:

### **Compliance**

We have audited the compliance of Shepherd University Research Corporation (the "Corporation") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2009. The Corporation's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Corporation's compliance with those requirements.

In our opinion, the Corporation complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009.

### **Internal Control Over Compliance**

The management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Corporation's internal control over compliance with requirements that could have a direct and material effect on its major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

A *control deficiency* in the Corporation's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Corporation's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Corporation's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance 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 compliance that we consider to be material weaknesses as defined above.

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

*Deloitte & Touche LLP*

October 2, 2009

# SHEPHERD UNIVERSITY RESEARCH CORPORATION

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2009

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### PART I. — SUMMARY OF AUDITORS' RESULTS

#### FINANCIAL STATEMENTS

Type of auditors' report issued:	Unqualified		
Internal control over financial reporting:			
Material weakness(es) identified?	<u>      </u> Yes	<u>  X  </u> No	
Significant deficiency(ies) identified not considered to be material weakness(es)?	<u>      </u> Yes	<u>  X  </u> N/A	
Noncompliance material to financial statements noted?	<u>      </u> Yes	<u>  X  </u> No	

#### FEDERAL AWARDS:

Internal control over major programs:			
Material weakness(es) identified?	<u>      </u> Yes	<u>  X  </u> No	
Significant deficiency(ies) identified not considered to be material weakness(es)?	<u>      </u> Yes	<u>  X  </u> N/A	
Type of auditors' report issued on compliance for major programs:	Unqualified		
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (section .510(a))?	<u>      </u> Yes	<u>  X  </u> No	

Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>		
Various	Research and Development Cluster		
Dollar threshold used to distinguish between Type A and Type B Programs			<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?		<u>  X  </u> Yes	<u>      </u> No

### PART II. — FINANCIAL STATEMENT FINDINGS SECTION

Reference Number	Findings	Questioned Costs
	No matters are reportable.	

### PART III. — FEDERAL AWARD FINDING AND QUESTIONED COSTS SECTION

No matters are reportable.