Shepherd University

Combined Financial Statements as of and for the Years Ended June 30, 2009 and 2008, and Independent Auditors' Reports

SHEPHERD UNIVERSITY

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INDEPENDENT AUDITORS' REPORT

To the Governing Board of
Shepherd University:

We have audited the combined statements of net assets of Shepherd University (the "University") as of June 30, 2009 and 2008, and the related combined statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These combined financial statements are the responsibility of the management of the University. Our responsibility is to express an opinion on the respective combined 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, such combined financial statements present fairly, in all material respects, the respective financial position of the University and the discretely presented component unit of the University as of June 30, 2009 and 2008, and changes in net assets and the cash flows of the University for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis on pages 3 to 12, which is the responsibility of the management, is not a required part of the combined 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 the information and we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2009, 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, 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
Management Discussion and Analysis (Unaudited)
Fiscal Years 2009 and 2008

About Shepherd University

Shepherd University (the "University") is a state-supported institution within the West Virginia system of Higher Education Policy. The University was founded in 1871. It offers Bachelor of Arts, bachelor of fine arts, and bachelor of science degrees in a wide range of fields, encompassing the liberal arts, business administration, teacher education, the social and natural sciences, and other career oriented areas. Graduate programs including 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 2009 data compared to the financial statements presented for fiscal year 2008. There are three financial statements presented: the Combined Statement of Net Assets; the Combined Statement of Revenues, Expenses, and Changes in Net Assets; and the Combined 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 Combined Statement of Net Assets presents the assets, liabilities, and net assets of the University as of June 30, 2009, and 2008. 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 debt, provides the institution's equity in property, plant, and equipment owned by the institution. The second asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. Shepherd University does not currently have nonexpendable restricted net assets since all funds of this nature would be directed to the Shepherd University Foundation. The corpus of nonexpendable restricted resources is available only for investment purposes. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The third category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the institution.

Condensed Combined Statement of Net Assets
(In thousands of dollars)

	June 30		
	FY 2009	FY 2008	FY 2007
Assets:			
Cash	$ 18,216	$ 18,301	$ 17,004
Other current Assets	1,933	1,458	3,613
Noncurrent Assets	123,630	124,658	99,723
Total Assets	$ 143,779	$ 144,417	$ 120,340
Liabilities:			
Current Liabilities	9,071	9,038	8,902
Noncurrent Liabilities	51,604	52,709	35,904
Total Liabilities	$ 60,675	$ 61,747	$ 44,806
Net Assets	$ 83,104	$ 82,670	$ 75,534

Assets:

- The change in current cash for fiscal year 2009 was not significant. Current cash increased $1.3 million in fiscal year 2008 because cash savings were realized from vacant positions.

- During fiscal year 2009, the amount due from the Commission increased $208,000 because the Higher Education Policy Commission was billed for grant funds related to several building renewal projects. 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 the end of fiscal year 2008.

- The amount due from other state agencies increased $242,000 in fiscal year 2009 and $155,000 in fiscal year 2008 because the University billed the West Virginia Department of Health and Human Resources for reimbursement of expenditures related to the Medicaid Transformation Grant.

- Accounts receivable increased $81,000 during fiscal year 2009 because the amount due from the federal government changed. 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.

- In fiscal year 2009, restricted cash increased $1.3 million because the investment agreement for the Wellness Center construction proceeds expired.

- During fiscal year 2009, investments decreased $15.6 million as expenditures were made for the Wellness Center construction. Investments increased $15.7 million during fiscal year 2008 because the proceeds from the 2007 bond issue for the Wellness Center were invested.

- During fiscal year 2009, capital assets increased $13.3 million because the Wellness Center was under construction. The total expended for construction projects including the Wellness Center was $16.7 million. Equipment and library additions totaled $1.7 million. These increases were offset by depreciation in the amount of $5.1 million. 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.

Liabilities:

- Accounts payable decreased $363,000 during fiscal year 2009. Accounts payable for capital expenditures decreased because the Wellness Center was completed in May. 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 equipment and construction decreased $330,000 because construction activity declined.

- Accrued liabilities increased $181,000 in fiscal year 2009 because salary rates were higher than in fiscal year 2008 and more employees were paid in arrears. During fiscal year 2008, accrued liabilities increased $247,000. Accrued interest increased $71,000 because the 2007 bonds were issued during the year. The rest of the increase was from accrued payroll. The accrued payroll increased for the same reasons noted for the accrued payroll increase in fiscal year 2008.

- During fiscal year 2009, deferred revenue increased $151,000 because deferred revenue related to grants changed. Deferred revenue increased $191,000 in fiscal year 2008. 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 in fiscal year 2008 because the 2007 bonds were issued.

- The postemployment benefit liability increased $547,000 in fiscal year 2009. During fiscal year 2008, the PEIA established the West Virginia Retiree Health Benefits Trust Fund to assume responsibility for postemployment benefits previously accrued by the University. The University is billed for its share of the liability. Gross billings to the University during the year totaled $1.5 million. The State of West Virginia (the "State") paid approximately $257,000 of this amount. As a result of establishment of the trust fund, the noncurrent portion of the compensated absence liability decreased $1.8 million and the other postemployment benefit increased $346,000 in fiscal year 2008. Gross billings for the University during that year totaled $1,630,308. The State paid approximately $539,000 of this amount.

- The current portion of leases payable increased $75,000 during fiscal year 2008 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, bonds payable and leases payable declined in accordance with their related payment schedules.

Statement of Revenues, Expenses, and Changes in Net Assets

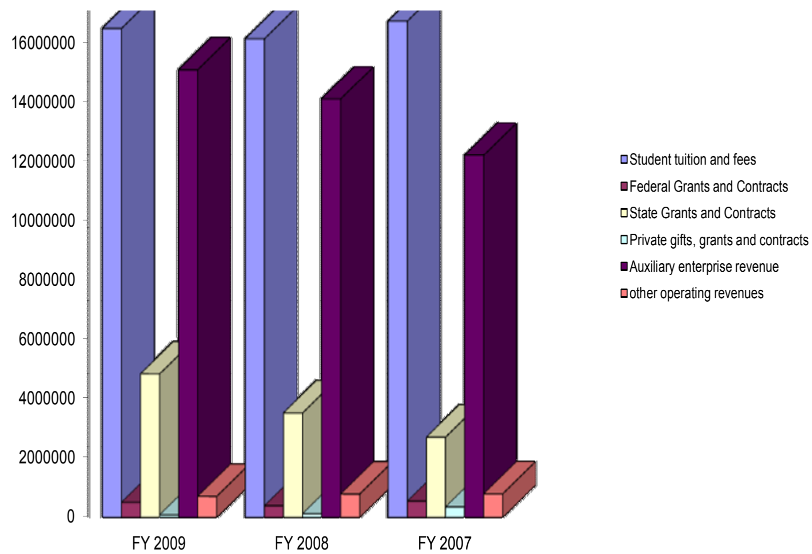
Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the institution, both operating and nonoperating, and the 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 Combined Statement of Revenues, Expenses, and Changes in Net Assets
(In thousands of dollars)

	FY 2009	FY 2008	FY 2007
Operating Revenues	$ 37,859	$ 35,186	$ 33,946
Operating Expenses	51,249	47,866	43,006
Operating Loss	(13,390)	(12,680)	(9,060)
Nonoperating Revenues – Net	13,753	13,610	12,459
Income before Other Revenues, Expenses, Gains, or Losses	363	930	3,399
Capital and Bond Proceeds From Commission	-	3,534	8,575
Capital Grants and Gifts	71	820	7,738
Increase in Net Assets Before Cumulative Effect or Transfers	434	5,284	19,712
Cumulative Effect of OPEB	-	1,852	-
Increase in Net Assets	434	7,136	19,712
Net Assets – Beginning of Year	82,670	75,534	55,822
Net Assets – End of Year	$ 83,104	$ 82,670	$ 75,534

Operating Revenues



Operating Revenues:

- Gross student tuition and fees increased $1.4 million or 6.33% in fiscal year 2009. Gross Tuition and fees were increased $78,000 in fiscal year 2008. Fees for general operations decreased $104 for in-state students and increased $74 for out-of-state students in 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 % in fiscal year 2008.

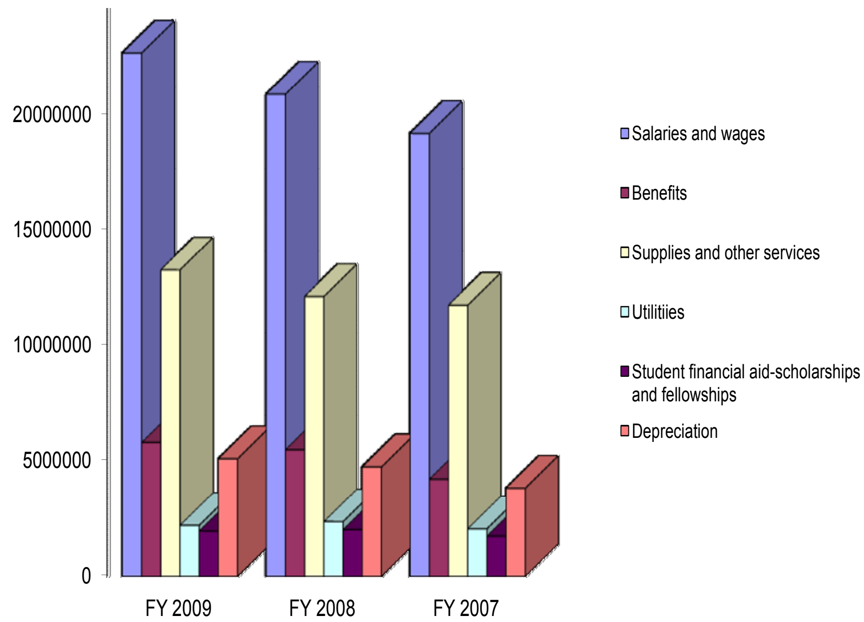
- During fiscal year 2009 and fiscal year 2008, Federal grants and contracts increased $115,000 respectively and decreased $156,000, respectively. In fiscal year 2009 and 2008 Federal financial aid grants increased and decreased, respectively.

- During fiscal year 2009, state grants and contracts increased $1.3 million because the amount received by the Shepherd University Research Corporation for the Department of Health and Human Services Medicaid Transformation Grant increased $1 million. In addition, State funded financial aid increased $179,000. 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 Medicaid Transformation Grant. Other revenues for state financial aid also increased.

- In fiscal years 2009 and 2008, private grants and contracts decreased $39,000 and $229,000 respectively because the number and dollar amounts of grants declined. Private grants and contracts increased $385,000 in fiscal year 2007 because several grants for capital projects were received. Other Private grants also increased.

- During fiscal year 2009, sales and services of auxiliary enterprises increased $993,000. The operating fee and community memberships were included in auxiliary revenues for fiscal year 2009. $619,000 was collected from these two revenues sources. Fiscal year 2009 housing and dining revenues increased $288,000 over the previous fiscal year. Room charges increased 4% and meal plan rates increased 2.56%. 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.

Operating Expenses



Operating Expenses:

- During fiscal year 2009, salaries and wages increased $1.8 million Employees received a 4 percent salary increase. In addition five faculty positions were added as well as custodial services positions, a landscape worker, a membership coordinator for the Wellness Center, and a safety technician. Part time faculty salaries increased $150,000 and salaries paid by the Shepherd University Research Corporation increased $130,000. 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.

- During fiscal year 2009, the cost of benefits increased $306,000 because salaries increased. The cost of benefits increased $1.4 million during fiscal year 2008. Postemployment expenses increased $1.1 million. The rest of the increase is related to salary changes and additional staff.

- During fiscal year 2009, supplies and other services increased $1.2 million. Expenses paid by the Shepherd University Research Corporation for the Medicaid Transformation Grant increased $791,000. Approximately $315,000 was expended for Wellness Center furniture, equipment and other items that were below the University's capitalization threshold. In addition, consultants were paid for strategic planning assistance.

- During fiscal year 2008, utilities expenses increased $309,000. The Erma Ora Byrd Hall and Center for Contemporary Arts were occupied during the year for the first time. In addition, utility rates increased.

- Depreciation expense increased $353,000 in fiscal year 2009 and $913,000 during fiscal year 2008 because the Erma Ora Byrd Hall was completed in June 2007 and the Center for Contemporary arts was completed in February 2008.

Nonoperating Revenues (Expenses)

- Investment income decreased $706,213 during fiscal year 2009. Interest rates declined and the invested construction proceeds decreased as expenditures were made on the Wellness Center. During fiscal year 2008, interest revenues increased $318,000. 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.

- Gifts increased $132,000 and $56,000 in fiscal years 2009 and 2008 respectively. Contributions from the Shepherd University Foundation increased in both years.

- Pell grants are reported as nonoperating, because of specific guidance in the AICPA industry audit guide. This presentation is a change in reporting from the prior year when the grants were included in operating as part of Federal grants and contracts.

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 Combined Statement of Cash Flows
(In thousands of dollars)

	FY 2009	FY 2008	FY 2007
Cash provided (used) by:			
Operating activities	$ (7,874)	$ (7,347)	$ (7,117)
Noncapital financing activities	14,993	13,921	13,221
Capital and related financing activities	(23,555)	9,167	(8,035)
Investing activities	16,351	(14,444)	5,413
Increase (decrease) in Cash	$ (85)	$ 1,297	$ 3,482
Cash, beginning of year	$ 18,301	$ 17,004	$ 13,522
Cash, end of year	$ 18,216	$ 18,301	$ 17,004

Capital Assets

The following construction project was completed in fiscal year 2009:

Wellness Center	$ 21,401,575

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 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 earned respectively in fiscal years 2008, 2007, 2006 and 2005.

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 the 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.

Economic Outlook

Although the State of West Virginia ended fiscal year 2009 with a surplus, the economic forecasts for fiscal year 2010 and beyond are not optimistic. It appears that federal stimulus funds will reduce the negative impact of reduced tax collections for fiscal year 2010 and 2011. 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

COMBINED STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2009 AND 2008

	2009	2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 18,215,689	$ 18,300,817
Due from the Commission	210,000	1,712
Due from other State agencies	516,371	274,240
Accounts receivable — net	656,161	574,717
Loans to students — current portion	74,291	152,875
Inventories	476,736	454,884
Total current assets	20,149,248	19,759,245
NONCURRENT ASSETS:		
Cash and cash equivalents	1,492,480	223,827
Investments	458,575	16,100,645
Loans to students — net of allowance of $293,293 and $300,015 in 2009 and 2008, respectively	491,313	363,388
Bond issuance costs — net	931,548	968,819
Capital assets — net	120,256,212	107,000,853
Total noncurrent assets	123,630,128	124,657,532
TOTAL	$ 143,779,376	$ 144,416,777

(Continued)

SHEPHERD UNIVERSITY

COMBINED STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2009 AND 2008

	2009	2008
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	$ 3,975,415	$ 4,338,852
Accrued liabilities	1,508,912	1,327,081
Due to the Commission	2,058	945
Due to other State agencies	1,418	6,330
Compensated absences — current portion	744,936	699,781
Debt obligation due to the Commission — current portion	466,137	398,622
Deferred revenue	1,016,554	864,903
Deposits held in custody for others	185,936	219,174
Bonds payable — current portion	1,075,000	1,045,000
Capital lease obligations — current portion	94,866	137,919
Total current liabilities	9,071,232	9,038,607
NONCURRENT LIABILITIES:		
Advances from federal sponsors	566,834	582,122
Compensated absences	424,080	401,846
Other postemployment benefits liability	893,479	346,219
Debt obligation due to the Commission	571,394	1,037,531
Bonds payable	48,769,827	49,867,444
Capital lease obligations	378,492	473,358
Total noncurrent liabilities	51,604,106	52,708,520
Total liabilities	60,675,338	61,747,127
NET ASSETS:		
Invested in capital assets — net of related debt	70,271,721	69,502,765
Restricted for — expendable:		
Loans	107,210	98,969
Debt service	313,100	563,326
Other restricted	74,117	104,391
Capital projects		113,114
Total expendable	494,427	879,800
Unrestricted	12,337,890	12,287,085
Total net assets	83,104,038	82,669,650
TOTAL	$ 143,779,376	$ 144,416,777

See notes to combined financial statements. (Concluded)

SHEPHERD UNIVERSITY

THE SHEPHERD UNIVERSITY FOUNDATION, INCORPORATED
A COMPONENT UNIT OF SHEPHERD UNIVERSITY
STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2009 AND 2008

	2009	2008
ASSETS		
CASH AND CASH EQUIVALENTS	$ 1,194,217	$ 1,725,230
PLEDGES RECEIVABLE	1,541,982	853,496
CONTRIBUTIONS RECEIVABLE	15,610	16,240
ACCRUED INTEREST RECEIVABLE	76,269	99,909
PREPAID EXPENSES	4,810	4,019
INVESTMENTS	19,844,150	21,597,259
EQUIPMENT — Net	4,164	6,064
TOTAL	$ 22,681,202	$ 24,302,217
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	$ 250	$ 19,953
Accrued payroll	1,562	
Custodial liabilities	3,230,255	2,949,021
Gift annuities payable	167,649	173,775
Total liabilities	3,399,716	3,142,749
NET ASSETS:		
Unrestricted	(3,195,799)	35,572
Temporarily restricted	4,062,557	2,995,614
Permanently restricted	18,414,728	18,128,282
Total net assets	19,281,486	21,159,468
TOTAL	$ 22,681,202	$ 24,302,217

See notes to financial statements.

SHEPHERD UNIVERSITY

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
OPERATING REVENUES:		
Student tuition and fees — net of scholarship allowance of $6,977,494 and $5,928,791 in 2009 and 2008, respectively	$ 16,509,416	$ 16,160,544
Contracts and grants:		
Federal	511,640	396,878
State	4,849,534	3,527,171
Private	88,495	127,640
Interest on student loans receivable	10,746	8,824
Sales and services of educational activities	57,554	48,328
Auxiliary enterprise revenue — net of scholarship allowance of $270,357 and $237,936 in 2009 and 2008, respectively	15,119,982	14,127,268
Other operating revenues	711,758	789,762
Total operating revenues	37,859,125	35,186,415
OPERATING EXPENSES:		
Salaries and wages	22,655,189	20,867,279
Benefits	5,788,000	5,481,766
Supplies and other services	13,260,683	12,109,794
Utilities	2,204,286	2,364,873
Student financial aid — scholarships and fellowships	1,960,453	2,020,741
Depreciation	5,085,703	4,732,390
Fees assessed by the Commission for operations	294,508	289,220
Total operating expenses	51,248,822	47,866,063
OPERATING LOSS	(13,389,697)	(12,679,648)

(Continued)

SHEPHERD UNIVERSITY

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
NONOPERATING REVENUES (EXPENSES):		
State appropriations	$ 11,018,482	$ 10,708,896
Federal Pell grants	3,106,863	2,475,579
Payments on behalf of Shepherd University	256,835	539,013
Investment income	623,069	1,329,282
Interest on indebtedness	(1,878,681)	(1,980,384)
Fees assessed by the Commission for debt service	(161,202)	(180,034)
Gifts	867,746	735,743
Loss on disposal of equipment	(80,277)	(18,662)
Net nonoperating revenues	13,752,835	13,609,433
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	363,138	929,785
CAPITAL AND BOND PROCEEDS FROM COMMISSION		3,534,237
CAPITAL GRANTS AND GIFTS	71,250	819,754
INCREASE IN NET ASSETS BEFORE CUMULATIVE EFFECT	434,388	5,283,776
CUMULATIVE EFFECT OF ADOPTION OF ACCOUNTING PRINCIPLE (Note 2)		1,852,173
INCREASE IN NET ASSETS	434,388	7,135,949
NET ASSETS — Beginning of year	82,669,650	75,533,701
NET ASSETS — End of year	$ 83,104,038	$ 82,669,650

See notes to combined financial statements. (Concluded)

SHEPHERD UNIVERSITY

THE SHEPHERD UNIVERSITY FOUNDATION, INCORPORATED
A COMPONENT UNIT OF SHEPHERD UNIVERSITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT:				
Cash contributions	$ -	$ 1,739,546	$ 218,122	$ 1,957,668
Stock contributions				
Other noncash contributions		150,476		150,476
Other revenue	28,149	14,208		42,357
Interest and dividends	81,613	523,522	18,131	623,266
Net realized and unrealized (losses) gains on investments	(2,689,649)			(2,689,649)
Transfers	(93,173)	42,980	50,193	
Transfer of net assets from the Shepherd University Alumni Association		68,203		68,203
Net assets released from restrictions	1,471,992	(1,471,992)		
Total revenue and other support	(1,201,068)	1,066,943	286,446	152,321
EXPENSES:				
Program services:				
Scholarships and awards	1,314,424			1,314,424
College support	157,569			157,569
General and administrative:				
Salaries	246,376			246,376
Investment management fees	147,513			147,513
Printing and reproduction costs	26,790			26,790
Payroll taxes and benefits	42,462			42,462
Depreciation	5,905			5,905
Administrative expense	3,088			3,088
Rent	12,600			12,600
Office supplies and postage	5,591			5,591
Insurance	6,851			6,851
Changes in gift annuities	13,132			13,132
Professional fees	23,187			23,187
Staff development	100			100
Development	18,353			18,353
Telephone	3,157			3,157
Technology	2,109			2,109
Miscellaneous	1,096			1,096
Total expenses	2,030,303	-	-	2,030,303
(DECREASE) INCREASE IN NET ASSETS	(3,231,371)	1,066,943	286,446	(1,877,982)
NET ASSETS — Beginning of year	35,572	2,995,614	18,128,282	21,159,468
NET ASSETS — End of year	$ (3,195,799)	$ 4,062,557	$ 18,414,728	$ 19,281,486

See notes to financial statements.

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

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	$ 16,508,255	$ 16,316,523
Contracts and grants	4,977,529	4,105,746
Payments to and on behalf of employees	(27,458,254)	(25,203,058)
Payments to suppliers	(12,934,244)	(12,694,263)
Payments to utilities	(2,522,401)	(2,257,406)
Payments for scholarships and fellowships	(1,960,453)	(2,020,741)
Loans issued to students	(135,521)	(140,515)
Collection of loans to students	86,180	80,824
Sales and service of educational activities	57,554	48,328
Auxiliary enterprise charges	15,078,746	14,150,674
Fees assessed by the Commission	(294,508)	(288,283)
Other receipts — net	722,506	555,698
Net cash used in operating activities	(7,874,611)	(7,346,473)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	11,018,482	10,708,896
Federal Pell grants	3,106,863	2,475,579
Gifts	867,746	735,743
Federal student loan program — direct lending receipts	15,122,000	12,725,556
Federal student loan program — direct lending payments	(15,122,000)	(12,725,556)
Net cash provided by noncapital financing activities	14,993,091	13,920,218
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Proceeds from capital debt		19,574,000
Capital and bond proceeds from the Commission		5,971,581
Capital grants and gifts received	71,250	819,754
Interest paid on capital debt and leases	(1,810,301)	(1,909,237)
Purchases of capital assets	(18,804,100)	(13,324,168)
Principal paid on capital debt and leases	(1,581,541)	(1,841,239)
(Deposits to) withdrawals from noncurrent cash and cash equivalents	(1,268,654)	56,069
Debt service assessed by the Commission for debt service and reserves	(161,202)	(180,034)
Net cash (used in) provided by capital financing activities	(23,554,548)	9,166,726
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments		(20,500,914)
Proceeds from sales of investments	15,642,070	4,790,266
Interest on investments	708,870	1,266,781
Net cash provided by (used in) investing activities	16,350,940	(14,443,867)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(85,128)	1,296,604
CASH AND CASH EQUIVALENTS — Beginning of year	18,300,817	17,004,213
CASH AND CASH EQUIVALENTS — End of year	$ 18,215,689	$ 18,300,817

(Continued)

SHEPHERD UNIVERSITY

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (13,389,697)	$ (12,679,648)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	5,085,703	4,732,390
Recovery of bad debt expense		(23,010)
Amortization of bond issuance costs	37,271	34,396
Net accretion of premiums/discounts on bonds payable	(22,617)	(23,952)
Expenses paid on behalf of Shepherd University	256,835	539,013
Changes in assets and liabilities:		
Accounts receivables — net	(167,245)	(180,748)
Loans to students — net	(49,341)	(59,691)
Due from the Commission	(208,288)	102,293
Due from other State agencies	(242,132)	(154,893)
Inventories	(21,854)	47,641
Accounts payable	19,325	(512,715)
Accrued liabilities	113,453	175,654
Compensated absences	67,389	85,101
Other postemployment benefits liability	547,260	346,219
Due to the Commission	1,113	937
Due to other State agencies	(4,912)	638
Deferred revenue	151,652	191,176
Deposits held in custody for others	(33,238)	23,230
Advances from federal sponsors	(15,288)	9,496
NET CASH USED IN OPERATING ACTIVITIES	$ (7,874,611)	$ (7,346,473)
NONCASH TRANSACTIONS:		
Cumulative effect of adoption of accounting principle	$ -	$ 1,852,173
Capital additions in accounts payable	$ 382,762	$ 2,460,467
Capital lease additions	$ -	$ 550,000
Bond issuance costs for Wellness Center Revenue Bonds	$ -	$ 395,794

See notes to combined 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 combined 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.

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 the 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 combined financial statements present all funds under the authority of the University, including its blended component unit, the Shepherd University Research Corporation (the "Research Corporation"), a nonprofit, nonstock corporation. The basic criterion for inclusion in the accompanying combined financial statements is the exercise of oversight responsibility derived from the

University's ability to significantly influence operations and accountability for fiscal matters of the Research Corporation. Their related organizations, The Shepherd University Foundation, Incorporated (the "Foundation") and Alumni Association, are not part of the University reporting entity and are not included in the accompanying financial statements as the University has no ability to designate management, cannot significantly influence operations of these entities, and is not accountable for the fiscal matters of the Foundation and Alumni Association 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, 2009 and 2008. 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 14 and 18).

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 University as a whole. 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 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, 2009 or 2008.

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 combined 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 combined statements of net assets, the University considers all highly liquid investments with an original maturity of three months or less to be cash and 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 eight investment pools and participant-directed accounts (seven in 2008), 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 $471,790 and $54,804 for the years ended June 30, 2009 and 2008, 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*.

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 (OPEBs) — 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 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. The same hire date mentioned above applies to coverage for faculty employees also. Faculty hired after July 1, 2009 will no longer receive years of service credit toward insurance premiums when they retire.

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 University 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 the 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 entities 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 2009 and 2008, the University received and disbursed approximately $15,122,000 and $12,726,000, 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 2009 and 2008, the University received and disbursed approximately $3,506,000 and $2,777,000, 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 combined 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 combined financial statements under the alternative method as prescribed by the National Association of College and University Business Officers. 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 combined 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 combined 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 combined financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification — Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 classifications. Revenues from Pell grants in the amount of $2,475,579 were transferred from operating revenues to nonoperating revenues.

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 combined financial statements.

Newly Adopted Statements Issued by the GASB — During 2009, the University 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 combined financial statements.

During 2009, the GASB issued GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Government*, 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 University 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 University adopted GASB Statement No. 56 upon issuance.

Recent Statements Issued by the GASB — 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 its combined 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 combined financial statements.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents as of June 30, 2009 and 2008, was held as follows:

2009	Current	Noncurrent	Total
State Treasurer	$ 17,977,680	$ -	$ 17,977,680
Trustee Bank		1,492,480	1,492,480
Bank	238,009		238,009
	$ 18,215,689	$ 1,492,480	$ 19,708,169

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

Cash and cash equivalents with the State Treasurer include $58,865 in 2009 and $193,562 in 2008 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, 2009 and 2008, was $1,492,480 and $223,827, respectively, and was invested in U.S. Treasury money market funds.

The combined carrying amount of cash in the bank at June 30, 2009 and 2008, was $238,009 and $381,329, respectively, as compared with the combined bank balance of $304,410 and $438,870, 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, 2009 and 2008, 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 Commission may invest in, three are subject to credit risk: WV Money Market Pool, WV Government Money Market Pool, and WV Short Term Bond Pool.

WV Money Market

Credit Risk — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. For the years ended June 30, 2009 and 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, specific information on the credit ratings of the underlying investments of the pool have not been provided.

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, 2009 and 2008, the WV Money Market Pool investments had a total carrying value of $2,570,261,000 and $2,358,470,000 respectively, of which the University's ownership represents 0.63% and 0.65%, respectively.

WV Government Money Market Pool

Credit Risk — For the years ended June 30, 2009 and 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, specific information on the credit ratings of the underlying investments of the pool have not been provided.

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, 2009 and 2008, the WV Government Money Market Pool investments had a total carrying value of $283,826,000 and $187,064,000, of which the University's ownership represents 0.05% and 0.08% respectively.

WV Short Term Bond 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 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*		2009		2008	
Security Type	**Moody's**	**S&P**	**Carrying Value**	**Percent of Pool Assets**	**Carrying Value**	**Percent of Pool Assets**
Corporate asset backed securities						
	Aaa	AAA	$ 16,402	5.21 %	$ 48,663	13.75 %
	Aaa	NR	5,136	1.63	2,179	0.62
	Aa3	AAA	223	0.07		
	Aa2	AAA	461	0.15		
	A3	AAA	273	0.09		
	Baa2	AAA	831	0.26		
	Baa1	BBB**	332	0.10		
	Baa2	BBB**	1,376	0.44		
	Ba3	AAA	645	0.20		
	B1	AAA	779	0.25		
	B2	B**	493	0.16		
	B2	CCC**	539	0.17		
	B3	AAA	949	0.30		
	Caa1	BB**	254	0.08		
	NR	AAA	679	0.22	1,135	0.32
	AA3	AA			192	0.06
			29,372	9.33	52,169	14.75
Commercial paper	P1	A-1			7,971	2.25
Corporate bonds and notes	Aaa	AAA	47,204	14.99	13,146	3.72
	Aa1	AA	4,445	1.41	12,613	3.56
	Aa1	A	2,052	0.65		
	Aa2	AAA	3,040	0.96		
	Aa2	AA	9,066	2.88	20,860	5.89
	Aa2	A			1,061	0.30
	Aa3	AA			11,488	3.25
	Aa3	A	7,831	2.49	4,548	1.28
	A1	AA	4,813	1.53	4,305	1.22
	A1	A	5,522	1.75	8,361	2.36
	A2	AA			847	0.24
	A2	A	32,040	10.17	26,585	7.51
	A3	A	7,024	2.23	10,917	3.08
	Baa1	AA-			593	0.17
	Baa1	A-			2,028	0.57
	Baa3	A	2,067	0.66		
	Baa3	BB+			645	0.18
			125,104	39.72	117,997	33.33
U.S. agency bonds	Aaa	AAA	60,250	19.13	71,840	20.29
U.S. Treasury notes***	Aaa	AAA	88,805	28.20	81,875	23.13
U.S. agency mortgage backed securities****	Aaa	AAA	4,975	1.58	5,345	1.51
Money Market Funds	Aaa	AAA	6,426	2.04		
Repurchase agreements (underlying securities):						
U.S. agency notes	Aaa	AAA			16,782	4.74
			$ 314,932	100 %	$ 353,979	100 %

* NR = Not Rated

** The securities were not in compliance with BTI Investment Policy at June 30, 2009. The securities were in compliance when originally acquired, but were subsequently downgraded. BTI management and its investment advisors have determined that it is in the best interests of the participants to hold the securities for optimal outcome.

*** 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, 2009 and 2008, the University's ownership represents 0.10% and 0.36%, 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 date of purchase. The following table provides information on the weighted average maturities for the various asset types in the WV Money Market Pool:

	2009		2008	
Security Type	**Carrying Value (In thousands)**	**WAM (Days)**	**Carrying Value (In thousands)**	**WAM (Days)**
Repurchase agreements	$ 212,010	1	$ 371,163	1
U.S. Treasury bills	483,714	69	406,426	31
Commercial paper	592,479	32	658,879	29
Certificates of deposit	128,402	56	147,001	95
U.S. agency discount notes	635,602	57	212,924	84
Corporate bonds and notes	73,812	38	158,000	21
U.S. agency bonds/notes	294,019	70	254,019	111
Money market funds	150,223	1	150,058	1
	$2,570,261	47	$2,358,470	40

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 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:

	2009		2008	
Security Type	**Carrying Value (In thousands)**	**WAM (Days)**	**Carrying Value (In thousands)**	**WAM (Days)**
Repurchase agreements	$ 53,000	1	$ 53,400	1
U.S. Treasury bills	74,424	94	29,929	58
U.S. agency discount notes	87,662	55	43,249	77
U.S. agency bonds/notes	68,608	37	60,420	84
Money market funds	132	1	66	1
	$ 283,826	51	$ 187,064	54

The overall effective duration (overall weighted average maturity in 2008) 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 date of purchase. The following table provides information on the effective duration for the various asset types in the WV Short Term Bond Pool at June 30, 2009:

Security Type	**Carrying Value (in Thousands)**	**Effective Duration (Days)**
U. S. Treasury bonds/notes	$ 88,805	917
Corporate notes	125,104	559
Corporate asset backed securities	29,372	622
U.S. agency bonds/notes	60,250	752
U.S. agency mortgage backed securities	4,975	540
Money market funds	6,426	1
	$ 314,932	691

The following table provides information on the weighted average maturities for the various asset types in the WV Short Term Bond Pool at June 30, 2008:

	2008	
Security Type	**Carrying Value (In thousands)**	**WAM (Days)**
Repurchase agreements	$ 16,782	1
U.S. Treasury bonds/notes	81,875	744
Corporate notes	117,997	675
Corporate asset backed securities	52,169	341
U.S. agency bonds/notes	71,840	1,231
U.S. agency mortgage backed securities	5,345	570
Commercial paper	7,971	50
	$ 353,979	707

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, 2009 and 2008, consist of the following:

	2009	2008
Repurchase agreements	$ -	$ 15,649,326
U.S. Treasury money market fund	458,575	451,319
	$ 458,575	$ 16,100,645

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 & Poor's and Aaa by Moody's. The carrying value at June 30, 2009 and 2008, is $458,575 and $451,319, 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. 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.

Investments have been reported at fair value and categorized as Level 1, 2, or 3. Level 1 represents investments that have a quoted price in the active market. Level 2 represents investments with direct or indirect market inputs. Level 3 represents investments with no observable market. All investments held as of June 30, 2009 are categorized as Level 1.

5. ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2009 and 2008, are as follows:

	2009	2008
Student tuition and fees — net of allowance for doubtful accounts of $208,830 and $181,574 in 2009 and 2008, respectively	$ 387,230	$ 340,176
Accrued interest receivable — the Commission	11,165	31,825
Other accrued interest receivable	525	65,667
Grants and contracts receivable	257,241	137,049
	$ 656,161	$ 574,717

6. CAPITAL ASSETS

Summary of capital assets transactions for the University as of June 30, 2009 and 2008, are as follows:

2009	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 1,120,925	$ -	$ -	$ 1,120,925
Construction in progress	8,390,677	16,680,327	23,933,589	1,137,415
Total capital assets not being depreciated	$ 9,511,602	$16,680,327	$23,933,589	$ 2,258,340
Other capital assets:				
Land improvements	$ 1,557,371	$ 462,374	$ -	$ 2,019,745
Infrastructure	9,090,266	22,409		9,112,675
Buildings	114,645,173	23,448,806		138,093,979
Equipment	11,055,445	1,570,388	2,835,583	9,790,250
Library books	4,095,127	170,623	239,936	4,025,814
Total other capital assets	140,443,382	25,674,600	3,075,519	163,042,463
Less accumulated depreciation for:				
Land improvements	162,993	116,815		279,808
Infrastructure	1,843,671	576,426		2,420,097
Buildings	30,748,220	3,063,783		33,812,003
Equipment	6,912,905	1,131,488	2,755,306	5,289,087
Library books	3,286,342	197,190	239,936	3,243,596
Total accumulated depreciation	42,954,131	5,085,702	2,995,242	45,044,591
Other capital assets — net	$ 97,489,251	$20,588,898	$ 80,277	$117,997,872
Capital asset summary:				
Capital assets not being depreciated	$ 9,511,602	$16,680,327	$23,933,589	$ 2,258,342
Other capital assets	140,443,382	25,674,600	3,075,519	163,042,463
Total cost of capital assets	149,954,984	42,354,927	27,009,108	165,300,803
Less accumulated depreciation	42,954,131	5,085,702	2,995,242	45,044,591
Capital assets — net	$107,000,853	$37,269,225	$24,013,866	$120,256,212

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

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

7. LEASES

Future annual lease payments on capital leases for years subsequent to June 30, 2009, are as follows:

Years Ending June 30	Principal	Interest	Total
2010	$ 94,866	$ 11,957	$ 106,823
2011	77,000	9,614	86,614
2012	79,183	7,431	86,614
2013	81,429	5,185	86,614
2014	83,739	2,875	86,614
Thereafter	57,141	602	57,743
Total	$ 473,358	$ 37,663	$ 511,021

The net book value of capital assets held under capital leases as of June 30, 2009 and 2008, was $757,019 and $862,973, respectively.

8. LONG-TERM LIABILITIES

Summary of long-term obligation transactions for the University for the years ended June 30, 2009 and 2008, are as follows:

2009	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term liabilities:					
Accrued compensated absences	$ 1,101,627	$ 67,389	$ -	$ 1,169,016	$ 744,936
Other postemployment benefits liability	346,219	547,260		893,479	
Debt obligation due to Commission	1,436,153		398,622	1,037,531	466,137
Bonds payable	50,912,444		1,067,617	49,844,827	1,075,000
Capital lease obligations	611,277		137,919	473,358	94,866
Advances from federal sponsors	582,122		15,288	566,834	
Total long-term liabilities	$54,989,842	$ 614,649	$1,619,446	$53,985,045	

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	

9. BONDS PAYABLE

Bonds payable as of June 30, 2009 and 2008, consisted of the following:

	Interest Rate	Annual Principal Installment Due	Principal Amount Outstanding 2009	Principal Amount Outstanding 2008
Student Fee Revenue Bonds, due through 2033	3.0%–5.13%	$105,000–370,000	$ 5,440,000	$ 5,555,000
Infrastructure Revenue Bonds, due through 2024	2.0%–4.5%	$125,000–240,000	2,730,000	2,865,000
Residence Facilities Revenue Bonds, due through 2035	3.25%–5.0%	$435,000–1,450,000	22,040,000	22,490,000
Wellness Center Facilities Revenue Bonds, due through 2037	3.43%–4.77%	$435,000–1,170,000	19,055,000	19,400,000
			49,265,000	50,310,000
Discount			(149,614)	(155,162)
Premium			729,441	757,606
			$49,844,827	$50,912,444

The Bonds are special obligations 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 construction 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 $397,642 and $483,390 as of June 30, 2009 and 2008, respectively.

For both the years ended June 30, 2009 and 2008, 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, 2009 and 2008, 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, 2009 and 2008, 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, 2009 and 2008, 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, 2009 and 2008, 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 on 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, 2009, are as follows:

Years Ending June 30	2003 Bonds Principal	2003 Bonds Interest	2004 Bonds Principal	2004 Bonds Interest
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	140,000	245,338	160,000	90,475
2015–2019	795,000	1,123,819	885,000	355,175
2020–2024	1,025,000	896,850	1,095,000	152,100
2025–2029	1,300,000	601,162		
2030–2034	1,670,000	222,936		
2035–2037				
Total	$ 5,440,000	$ 4,125,126	$ 2,730,000	$ 1,010,130

Years Ending June 30	2005 Bonds Principal	2005 Bonds Interest	2007 Bonds Principal	2007 Bonds Interest
2010	$ 460,000	$ 1,062,531	$ 355,000	$ 864,987
2011	480,000	1,046,431	370,000	852,562
2012	495,000	1,029,631	385,000	837,762
2013	515,000	1,011,688	400,000	822,363
2014	530,000	992,375	415,000	807,363
2015–2019	3,030,000	4,596,000	2,355,000	3,743,400
2020–2024	3,865,000	3,764,750	2,985,000	3,112,625
2025–2029	4,925,000	2,698,000	3,740,000	2,356,550
2030–2034	6,290,000	1,336,500	4,690,000	1,415,088
2035–2037	1,450,000	72,500	3,360,000	306,900
Total	$22,040,000	$17,610,406	$19,055,000	$15,119,600

Years Ending June 30	Total Principal	Total Interest
2010	$ 1,075,000	$ 2,303,410
2011	1,120,000	2,266,145
2012	1,160,000	2,224,805
2013	1,205,000	2,180,996
2014	1,245,000	2,135,551
2015–2019	7,065,000	9,818,394
2020–2024	8,970,000	7,926,325
2025–2029	9,965,000	5,655,712
2030–2034	12,650,000	2,974,524
2035–2037	4,810,000	379,400
Total	$49,265,000	$37,865,262

10. OTHER POSTEMPLOYMENT BENEFITS

With the adoption of GASB Statement No. 45 for the year ended June 30, 2008, OPEB costs are accrued based upon invoices received from PEIA based upon actuarial determined amounts. At June 30, 2009 and 2008, the noncurrent liability related to OPEB costs was $ 893,479 and $346,219, respectively. 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 $1,470,539 and $666,445, respectively, during 2009, and $1,630,308 and $745,076, respectively, during 2008. As of and for the years ended June 30, 2009 and 2008, there were 31 and 33 retirees receiving these benefits, respectively.

11. 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, 2009, 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, 2009 and 2008, are as follows:

	2009	2008
Principal	$ 398,622	$ 384,300
Interest	64,492	83,707
Other	96,710	96,327
	$ 559,824	$ 564,334

12. UNRESTRICTED NET ASSETS

The University did not have any designated net assets as of June 30, 2009 or 2008.

13. RETIREMENT PLANS

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

Effective January 1, 2003, higher education employees enrolled in the basic 401(a) retirement plan with TIAA-CREF have an option to switch to the Great West basic retirement plan. New hires have the choice of either plan. As of June 30, 2008 and 2007, only one employee has elected this plan.

Total contributions to the Great West for the years ended June 30, 2009, 2008, and 2007, were $2,858, $3,256, and $5,948, respectively, which consisted of equal contributions from the University and the covered employee in 2009, 2008, and 2007 of $1,429, $1,628, and $2,974, respectively.

The STRS is a cost-sharing, defined benefit, 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, 2009 and 2008. Required employee contributions were at the rate of 6% of total annual salary for the years ended June 30, 2009 and 2008. Participants in the STRS may retire with full benefits upon reaching age 60 with five years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest five 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, 2009, 2008, and 2007, were $132,723, $126,050, and $132,455, respectively, which consisted of $91,386, $88,408, and $93,034 from the University in 2009, 2008, and 2007, respectively, and $41,337, $37,641, and $39,421 from the covered employees in 2009, 2008, and 2007, 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, 2009, 2008, and 2007, were $2,050,336, $2,011,173, and $1,835,519, respectively, which consisted of equal contributions from the University and covered employees in 2009, 2008, and 2007 of $1,025,168, $1,005,587, and $917,759, respectively.

The University's total payroll for the years ended June 30, 2009 and 2008, was $21,166,818 and $20,685,142, respectively, and total covered employees' salaries in the STRS, TIAA-CREF, and Educators Money were $688,946, $17,086,131, and $23,813 in 2009, and $665,332, $16,759,779, and $27,137 in 2008, respectively.

14. 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, 2009 and 2008, the Foundation's net assets (including unrealized gains) totaled $19,281,486 and $21,159,468, 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, 2009 and 2008, the Foundation contributed $864,057 and $702,312, respectively, to the University for scholarships and awards.

15. 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.

16. 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 combined financial statements as of June 30, 2009 or 2008.

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.

17. 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 Statements of Net Assets as of June 30, 2009 and 2008:

	Student Fee Revenue Bonds 2003		Infrastructure Revenue Bonds 2004		Residence Facilities Projects Revenue Bonds 2005		Wellness Center Revenue Bonds 2007	
	2009	2008	2009	2008	2009	2008	2009	2008
Assets:								
Current assets	$ 986,539	$ 731,621	$ 300,886	$ 232,688	$ 6,414,326	$ 6,566,832	$ 672,928	$ 240,350
Noncurrent assets	4,606,730	4,946,250	2,870,323	3,105,292	21,985,812	21,822,828	21,052,467	21,536,395
Total assets	$ 5,593,269	$ 5,677,871	$3,171,209	$3,337,980	$28,400,138	$28,389,660	$ 21,725,395	$ 21,776,745
Liabilities								
Current liabilities	$ 142,401	$ 137,638	$ 149,153	$ 144,458	$ 1,472,223	$ 1,515,775	$ 1,096,539	$ 1,562,152
Noncurrent liabilities	5,284,355	5,440,000	2,589,569	2,730,000	22,687,932	23,250,974	18,586,472	18,934,794
Total liabilities	5,426,756	5,577,638	2,738,722	2,874,458	24,160,155	24,766,749	19,683,011	20,496,946
Net (deficit) assets:								
Invested in capital assets — net of related debt	(1,292,927)	(1,368,914)	131,329	145,752	(1,237,294)	(2,352,311)	1,588,868	(13,780,632)
Restricted:								
Debt service	472,911	624,632	275	85,095	(88,240)	311,626	(71,844)	314,159
Capital projects		113,114						14,571,934
Unrestricted	986,529	731,401	300,883	232,675	5,565,517	5,663,596	525,360	174,338
Total net assets	166,513	100,233	432,487	463,522	4,239,983	3,622,911	2,042,384	1,279,799
Total net assets and liabilities	$ 5,593,269	$ 5,677,871	$3,171,209	$3,337,980	$28,400,138	$28,389,660	$ 21,725,395	$ 21,776,745

Condensed Statements of Revenues, Expenses and Changes in Net Assets for the years ended June 30, 2009 and 2008:

	Student Fee Revenue Bonds 2003		Infrastructure Revenue Bonds 2004		Residence Facilities Projects Revenue Bonds 2005		Wellness Center Revenue Bonds 2007	
	2009	2008	2009	2008	2009	2008	2009	2008
Operating:								
Operating revenues	$ 449,364	$ 451,809	$ 317,020	$ 311,692	$ 13,745,877	$ 13,109,582	$ 1,892,336	$1,398,696
Operating expenses	(136,274)	(171,730)	(235,229)	(235,796)	(12,155,228)	(11,352,737)	(571,379)	(10,002)
Net operating income	313,090	280,079	81,791	75,896	1,590,649	1,756,845	1,320,957	1,388,694
Nonoperating:								
Nonoperating revenues	22,827	26,442	356	1,003	87,999	299,579	337,505	501,166
Nonoperating expenses	(269,637)	(273,095)	(113,182)	(116,128)	(1,061,576)	(1,067,001)	(895,877)	(84,278)
Net nonoperating (loss) income	(246,810)	(246,653)	(112,826)	(115,125)	(973,577)	(767,422)	(558,372)	416,888
Transfers								(525,783)
Increase (decrease) in net assets	66,280	33,426	(31,035)	(39,229)	617,072	989,423	762,585	1,279,799
Net assets — beginning of year	100,233	66,807	463,522	502,751	3,622,911	2,633,488	1,279,799	
Net assets — end of year	$ 166,513	$ 100,233	$ 432,487	$ 463,522	$ 4,239,983	$ 3,622,911	$ 2,042,384	$1,279,799

Condensed Statements of Cash Flows for the years ended June 30, 2009 and 2008:

	Student Fee Revenue Bonds 2003		Infrastructure Revenue Bonds 2004		Residence Facilities Projects Revenue Bonds 2005		Wellness Center Revenue Bonds 2007	
	2009	2008	2009	2008	2009	2008	2009	2008
Net cash provided by operating activities	$ 448,722	$ 452,060	$ 315,896	$ 311,748	$ 2,246,416	$ 2,797,314	$ 1,534,243	$ 1,378,922
Net cash used in capital and related financing	(463,960)	(708,077)	(248,485)	(246,605)	(3,612,211)	(4,111,039)	(1,920,749)	(1,289,872)
Net cash provided by investing activities	269,914	296,595			1,171,729	1,398,360	876,056	75,516
Increase (decrease) in cash and cash equivalents	254,676	40,578	67,411	65,143	(194,066)	84,635	489,550	164,566
Cash and cash equivalents — beginning of year	727,540	686,962	228,103	162,960	5,961,862	5,877,227	164,566	
Cash and cash equivalents — end of year	$ 982,216	$ 727,540	$ 295,514	$ 228,103	$ 5,767,796	$ 5,961,862	$ 654,116	$ 164,566

18. COMPONENT UNIT'S DISCLOSURES

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations — The Shepherd University Foundation, Inc., formerly known as Shepherd College Foundation, (the "Foundation"), is a nonprofit organization incorporated in the State 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 $3,170 and $5,344 for the years ended June 30, 2009 and 2008, respectively.

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.

Risks — The Foundation invests in a portfolio that contains government obligations, fixed income bonds, and equity securities. Such investments are exposed to various risks, such as market and credit risk. Due to the level of risk associated with such investments, it is at least reasonably possible that changes in risk in the near term would materially affect investment balances and the amounts reported in the financial statements.

B. PLEDGES RECEIVABLE

Pledges receivable represent amounts due to the Foundation for legally enforceable pledges. These pledges are payable in full or in part through June 30, 2017.

Pledges receivable as of June 30, 2009 and 2008, 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.

	2009	2008
Receivable in less than one year	$ 627,903	$ 276,446
Receivable in one to five years	990,495	618,663
Receivable in six to ten years	15,000	30,000
Total pledges receivable	1,633,398	925,109
Less discount to net present value	(91,416)	(71,613)
Total pledges receivable	$ 1,541,982	$ 853,496

C. INVESTMENTS

The Foundation maintains investment securities with various brokerage companies. The Foundation also maintains investments in real estate and certificates of deposit, several corporate bonds, and some common stock held by the Foundation.

Investment securities at June 30, 2009 and 2008, are composed of the following:

Description	Cost	Market
2009		
Cash and temporary investments	$ 1,456,826	$ 1,458,306
U.S. government securities	8,254,688	9,148,140
Corporate bonds and notes	158,715	161,358
Common stocks	10,013,498	8,931,547
Investment securities	$ 19,883,727	$ 19,699,351
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

The investment in real estate is comprised of the following:

Description	Cost	Accumulated Depreciation	Net Book Value
2009			
Land	$ 40,000	$ -	$ 40,000
Building	160,202	55,403	104,799
	$ 200,202	$ 55,403	$ 144,799
2008			
Land	$ 40,000	$ -	$ 40,000
Building	160,202	51,398	108,804
	$ 200,202	$ 51,398	$ 148,804

The Following is a summary of the Foundation's investments as of June 30, 2009 and 2008, is as follows:

Description	Cost	Market
2009		
Investment securities	$ 19,883,727	$ 19,699,351
Real estate	144,799	144,799
	$ 20,028,526	$ 19,844,150
2008		
Investment securities	$ 20,496,629	$ 21,448,455
Real estate	148,804	148,804
	$ 20,645,433	$ 21,597,259

In addition, recent economic uncertainty and market events have led to unprecedented volatility in currency, commodity, credit and equity markets culminating in failures of some banking and financial service firms and government intervention to solidify other. These recent events underscore the level of investment risk associated with the current economic environment, and accordingly the level of risk in the Foundation's investments.

During 2008, the Foundation invested funds in the Collins Capital Low Volatility Performance Fund II, Ltd. This fund represents a speculative investment and involves a high degree of risk. On January 23, 2009 the Foundation was notified that redemptions were temporarily suspended. The notification provided that 5% of the capital account could be redeemed in each of the next four quarters. On July 6, 2009, the Foundation received an updated notification that the suspension will be lifted. For that quarter and each succeeding quarter, Collins will determine on an individual fund bases whether it will be possible to meet redemption requests fully in cash. Until redemptions can be met fully in cash, the Foundation will continue to have the option of receiving cash distributions each quarter of up to 5% of their net asset value. If the Foundation decides to redeem more than 5% of their total investment the amount requested will be transferred into Special Purpose Vehicles (SPVs'). Cash will be distributed from the SPVs as it becomes available.

D. EQUIPMENT

Equipment consists of the following:

	2009	2008
Office equipment (at cost)	$ 16,019	$ 16,019
Accumulated depreciation	(11,855)	(9,955)
Net book value	$ 4,164	$ 6,064

E. CUSTODIAL LIABILITIES

The gross receipts and disbursements for the custodial accounts, the interest earned, gains on investments, and the net transfers to/from the custodial accounts for the years ended June 30, 2008 and 2007, are as follows:

	2008	2007
Custodial receipts	$ 582,254	$ 307,547
Custodial payments	(530,787)	(366,899)
Transfer of custodial accounts from the Shepherd University Alumni Association, Inc.	48,709	
Interest and gains on investments	181,058	230,758
Net increase in custodial liabilities	$ 281,234	$ 171,406

F. GIFT ANNUITIES

Gift annuities payable consist of the following liabilities:

	2008	2007
Daniel and Orpha Cowgill Annuity	$ 39,576	$ 41,203
James K. Wright, Jr. Annuity	38,770	41,150
Benjamin and Mary Lou Mehrling Annuity	5,019	5,223
James K. and Gladys L. Wright Annuity	16,935	17,721
MEO Annuity	67,349	68,478
Total	$ 167,649	$ 173,775

The assets received are recognized at fair value when received, and the gift annuity liabilities are recorded using the present value of future cash flows expected to be paid to the donors and are being amortized over the expected lives of the donors.

G. EMPLOYEE PENSION PLAN

The Foundation participates in the TIAA-CREF retirement plan. The Foundation contributes to the plan based on a dollar for dollar match of the contributions of full-time employees up to 6%. The cost recognized during the years ended June 30, 2009 and 2008, was $9,494 and $9,467, respectively.

H. CONDITIONAL PROMISES TO GIVE

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

I. CONCENTRATION OF CREDIT RISK

The Foundation places the majority of its demand deposits with one bank and at the current time does not limit the daily cash balances to the federally insured limits. From time to time during 2009 and 2008, 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.

J. 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, 2009 and 2008.

K. FAIR VALUE MEASUREMENTS

SFAS No. 157, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 — Represented by quoted prices that are available in an active market. Level 1 securities include highly liquid government bonds, treasury securities, mortgage products and exchange traded equities.

Level 2 — Represented by assets and liabilities similar to Level 1 where quoted prices are not available, but are observable, either directly or indirectly through corroboration with observable market data, such as quoted prices for similar securities and quoted prices in inactive markets and estimated using pricing models or discounted cash flows. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed securities and swap agreements.

Level 3 — Represented by financial instruments where there is limited activity or unobservable market prices and pricing models significant to determining the fair value measurement include the reporting entity's own assumptions about the market risk. Level 3 securities would include hedge funds, private equity securities, and private investments in public entities.

Fair value of assets measured on a recurring basis at June 30, 2009, is as follows:

Description	Fair Value June 30, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and temporary investments	$ 1,458,306	$ 1,458,306	$ -	$ -
U.S. Government Securities	9,148,140	9,148,140		
Corporate bonds and notes	161,358	161,358		
Common stocks and mutual funds	8,931,547	8,094,054		837,493
Real estate	144,799			144,799
	$ 19,844,150	$18,861,858	$ -	$982,292

The fair values of Shepherd University Foundation's assets are measured using different techniques. The fair value for the investments noted above is determined by reference to quoted market price, other relevant information available generated by market transactions, 3rd party valuations, and estimated pricing models or discounted cash flows. Fair value for real estate is determined based on the historical cost of the real estate less an allowance for depreciation.

Total realized gain (loss) for the investments noted above that is included in the change in net assets at June 30, 2009 and 2008 was $(1,434,881) and $190,536, respectively. The unrealized gain (loss) for the investments noted above included in the change in net assets at June 30, 2009 and 2008 was $(1,254,768) and $(885,088).

The changes in assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) are as follows for the year ended June 30, 2009:

Fair value as of July 1	$ 148,804
Investment in mutual funds	1,000,000
Allowance for depreciation	(4,005)
Unrealized loss on mutual funds	(162,507)
Fair value as of June 30	$ 982,292

L. UNCERTAIN TAX POSITIONS

In June 2006, the FASB released FASB interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes*. When FIN 48 is implemented, the Foundation will utilize different recognition thresholds and measurement requirements when compared to prior technical literature. On December 30, 2008, the FASB Staff issued FASB Staff Position (FSB) FIN 48-3, *Effective Date of the FASB Interpretation No. 48 for Certain Nonpublic Enterprises* deferred the implementation of the provisions of FIN 48 until fiscal years beginning after December 15, 2008. As such, the Foundation has not implemented those provisions in the 2009 financial statements.

Since the provisions of FIN 48 have not been implemented in accounting for uncertain tax provisions, the Foundation continues to utilize its prior policy of accounting for these provisions. A liability for taxes is recorded when it is probable that the liability has been incurred and the amount of the liability can be reasonably estimated. If a tax liability is probable, but cannot be reasonably estimated, or it is reasonably possible that a tax liability has been incurred, disclosure is required. Using that guidance, as of June 30, 2009, the Foundation has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

M. ENDOWMENTS

The Foundation's endowments consist of individual funds established to provide investment income for the Foundation's operations. The endowments include both donor-restricted endowment funds and funds designated by the Foundation to function as an endowment. Net assets associated with endowment funds, including funds designated by the Foundation to function as endowments, are classified and reported as unrestricted or permanently restricted net assets based on the existence or absence of donor-restriction, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, and other resources.

The Board of Trustees of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of the interpretation, The Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard prudence prescribed by SPMIFA.

The Shepherd University Foundation's Directors make an annual determination of the level of funding that will be provided by the Foundation's investments. The policy of the Foundation's Directors is to determine the amount of the annual income distribution based on the investment portfolio's total return for the previous fiscal year. Any undistributed investment income as well as all gains and losses and unrestricted contributions are added to unrestricted net assets.

The endowments are invested consistent with an investment policy statement that is monitored by the Foundation's Directors. To satisfy the long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Funds in the endowment are primarily invested in U.S. Government Securities and mutual funds with several investment managers using an investment philosophy that maintains equities in the range of 53% to 63% of the total fund, real estate in the range of 0% to 10%, and fixed income securities in the range of 33% to 43%.

Endowment net assets consisted of the following as of June 30, 2009, and 2008:

	2009	**2008**
Board designated endowment funds	$ 137,012	$ 134,295
Donor permanently restricted endowment funds	18,283,371	17,993,987
	$ 18,420,383	$ 18,128,282

The changes in endowment net assets for the years ended June 30, 2009, and 2008 were as follows:

Endowment net assets as of July 1, 2008	$ 16,780,830
Investment return:	
Investment income	26,916
Net appreciation	51,367
Total investment return	78,283
Contributions	1,201,979
Transfers	67,190
Endowment net assets at June 30, 2008	18,128,282
Investment return:	
Investment income:	18,131
Net appreciation	
Total investment return	18,131
Contributions	223,777
Transfers	50,193
Endowment net assets at June 30, 2009	$ 18,420,383

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are included in unrestricted net assets were approximately $518,000. These deficiencies resulted from unfavorable market fluctuations during the year. There were no such deficiencies as of June 30, 2008.

N. SUBSEQUENT EVENTS

The foundation has evaluated events and transactions subsequent to June 30, 2009 through September 3, 2009, the date these financial statements were issued. Based on the definitions and requirements of Generally Accepted Accounting Principles, management has not indentified any events that have occurred subsequent to June 30, 2009 and through September 3, 2009, that require recognition or disclosure in the financial statements.

19. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2009 and 2008, the following represents operating expenses within both natural and functional classifications:

2009	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Fees Assessed by the Commission	Total
Instruction	$10,385,557	$2,370,938	$ 1,015,975	$ 359	$ -	$ -	$ -	$13,772,829
Research			2,177					2,177
Public service	338,721	42,511	1,310,557	331				1,692,120
Academic support	1,788,407	458,579	833,216	1,402				3,081,604
Student services	2,080,406	525,037	1,159,220	1,281				3,765,944
General institutional support	2,411,147	933,550	1,550,065	1,131				4,895,893
Operations and maintenance of plant	1,512,228	442,568	1,518,020	1,218,814				4,691,630
Student financial aid					1,960,453			1,960,453
Auxiliary enterprises	4,138,723	1,014,817	5,871,453	980,968				12,005,961
Depreciation						5,085,703		5,085,703
Other							294,508	294,508
Total	$22,655,189	$5,788,000	$13,260,683	$2,204,286	$1,960,453	$5,085,703	$294,508	$51,248,822

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

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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 combined financial statements of Shepherd University (the "University") as of and for the year ended June 30, 2009, and have issued our report thereon dated October 2, 2009, 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 combined 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 University's combined 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 2, 2009