Shepherd University

Combined Financial Statements as of and for the Years Ended June 30, 2010 and 2009, and Independent Auditors' Reports

SHEPHERD UNIVERSITY

TABLE OF CONTENTS

Deloitte.

Deloitte & Touche LLP
2500 One PPG Place
Pittsburgh, PA 15222-5401
USA

Tel: +1 412 338 7200
Fax: +1 412 338 7380
www.deloitte.com

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, 2010 and 2009, 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, 2010 and 2009, and changes in net assets and the cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis on pages 3 to 10, which is the responsibility of the University's 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 25, 2010, 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 25, 2010

Shepherd University

Management Discussion and Analysis (Unaudited)
Fiscal Years 2010 and 2009

About Shepherd University

Shepherd University (the "University") is a state-supported institution within the West Virginia system of Higher Education. 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 2010 data compared to the financial statements presented for fiscal year 2009. There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. This discussion and analysis of the University's financial statements provides an overview of its financial activities for the year and is required supplemental information.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of June 30, 2010 and 2009. The Statement of Net Assets is a point-of-time financial statement. The Statement of Net Assets presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities). The difference between current and noncurrent assets and liabilities will be discussed in the footnotes to the financial statements.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the 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 Statements of Net Assets
(In thousands of dollars)

	June 30		
	FY 2010	FY 2009	FY 2008
Assets:			
Cash	$ 17,747	$ 18,216	$ 18,301
Other current Assets	1,747	1,933	1,458
Noncurrent Assets	122,779	123,630	124,658
Total Assets	$ 142,273	$ 143,779	$ 144,417
Liabilities:			
Current Liabilities	8,090	9,071	9,039
Noncurrent Liabilities	52,905	51,604	52,709
Total Liabilities	$ 60,995	$ 60,675	$ 61,747
Net Assets	$ 81,278	$ 83,104	$ 82,670

Assets:

- The amount of cash at the end of fiscal year 2010 declined $469,000 from the previous year because $456,000 was paid for the design of the second phase of the Center for Contemporary Arts. These cash payments will be reimbursed by funds from the Higher Education Policy Commission (the "HEPC") bond issue. The change in current cash for fiscal year 2009 was not significant.
- During fiscal year 2009, the amount due from the Commission increased $208,000 from the previous year because the HEPC was billed for grant funds related to several building renewal projects. No payments were due from the HEPC at the end of fiscal year 2010.
- The amount due from other state agencies increased $242,000 in fiscal year 2009 because the University billed the West Virginia Department of Health and Human Resources for reimbursement of expenditures related to the Medical Transformation Grant. This amount decreased $281,000 at the end of fiscal year 2010 as the grant was nearing completion.
- Accounts receivable increased $81,000 during fiscal year 2009 because the amount due from the federal government changed.
- Inventories increased $360,000 at the end of fiscal year 2010 because a shipment of books scheduled for an early July 2010 delivery was received before the year end.
- In fiscal year 2009, restricted cash increased $1.3 million because the investment agreement for the Wellness Center construction proceeds expired. Almost this entire amount was expended for the remaining invoices for the Wellness Center's construction.
- During fiscal year 2009, investments decreased $15.6 million as expenditures were made for the Wellness Center construction.
- During fiscal year 2010 capital assets decreased $651,000. The total expended for construction projects was $5.1 million. Equipment and library additions totaled $1 million. These increases were offset by depreciation in the amount of $5.5 million. 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.

Liabilities:

- Accounts payable decreased about $1.1 million during fiscal year 2010. Accounts payable for capital expenditures decreased $952,000 because the Wellness Center was completed in fiscal year 2009. During fiscal year 2009, accounts payable decreased $363,000 because the amounts due at the end of the fiscal year for the construction of the Wellness Center declined over the previous year.
- Accrued liabilities increased $245,000 in fiscal year 2010 because salary rates were higher than in fiscal year 2009 and more employees were paid in arrears and more faculty chose to be paid in 24 installments. During fiscal year 2009, accrued liabilities increased $181,000 because salary rates were higher and more employees were paid in arrears.
- Deferred revenue declined $221,000 in fiscal year 2010 because funds received in advance for an HEPC capital grant were expended. During fiscal year 2009, deferred revenue increased $151,000 because deferred revenue related to grants changed.
- During fiscal year 2010, the post-employment benefits increased $2.9 million. The Public Employees Insurance Agency established the West Virginia Retiree Health Benefits Trust Fund in 2008 to assume responsibility for post-employment benefits previously accrued by the University. The University is billed for its share of the liability. No payments were made on the behalf of the University in fiscal year 2010. The post-employment benefit liability increased $547,000 in fiscal year 2009. Gross billings to the University during the year totaled $1.5 million. The State of West Virginia paid approximately $257,000 of this amount.
- 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

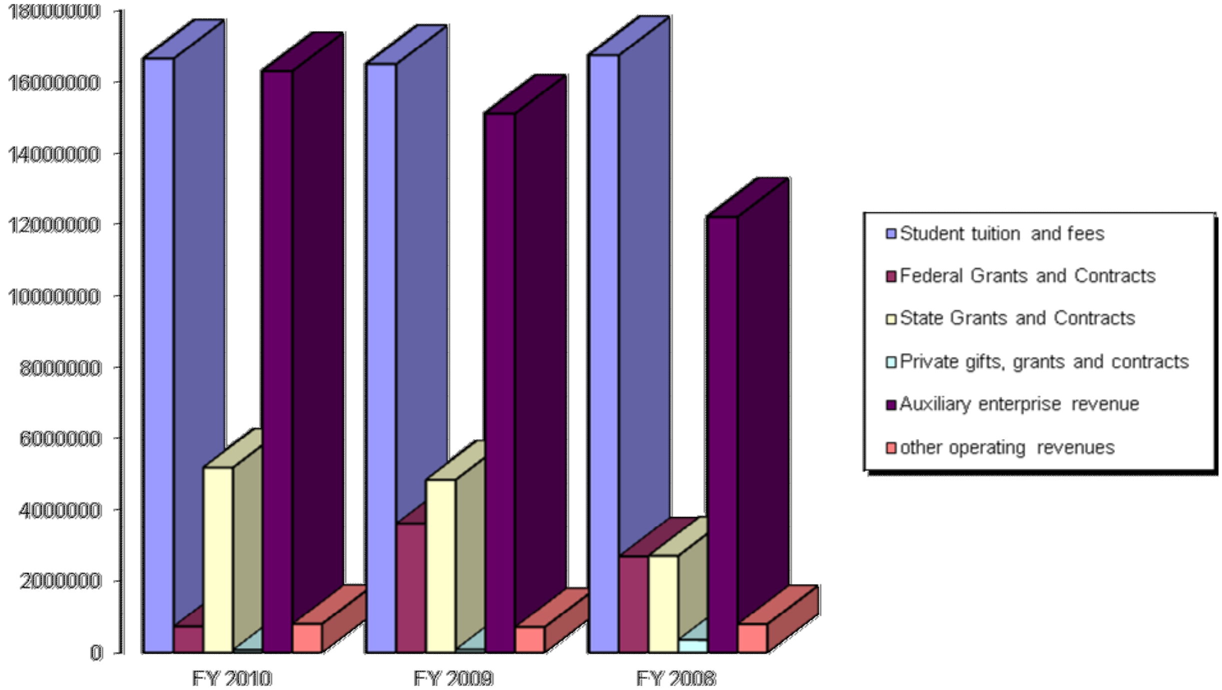
Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the institution, both operating and nonoperating, and the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

	FY 2010	FY 2009	FY 2008
Operating Revenues	$ 39,848	$ 37,859	$ 35,186
Operating Expenses	56,800	51,249	47,866
Operating Loss	(16,952)	(13,390)	(12,680)
Nonoperating Revenues – Net	14,334	13,752	13,609
Income (Loss) before Other Revenues, Expenses, Gains, or Losses	(2,618)	363	930
Capital and Bond Proceeds From Commission	93	-	3,534
Capital Grants and Gifts	700	71	820
(Decrease) Increase in Net Assets Before Cumulative Effect or Transfers	(1,826)	434	5,284
Cumulative Effect of OPEB	-	-	1,852
(Decrease) Increase in Net Assets	(1,826)	434	7,136
Net Assets – Beginning of Year	83,104	82,670	75,534
Net Assets – End of Year	$ 81,278	$ 83,104	$ 82,670

Operating Revenues

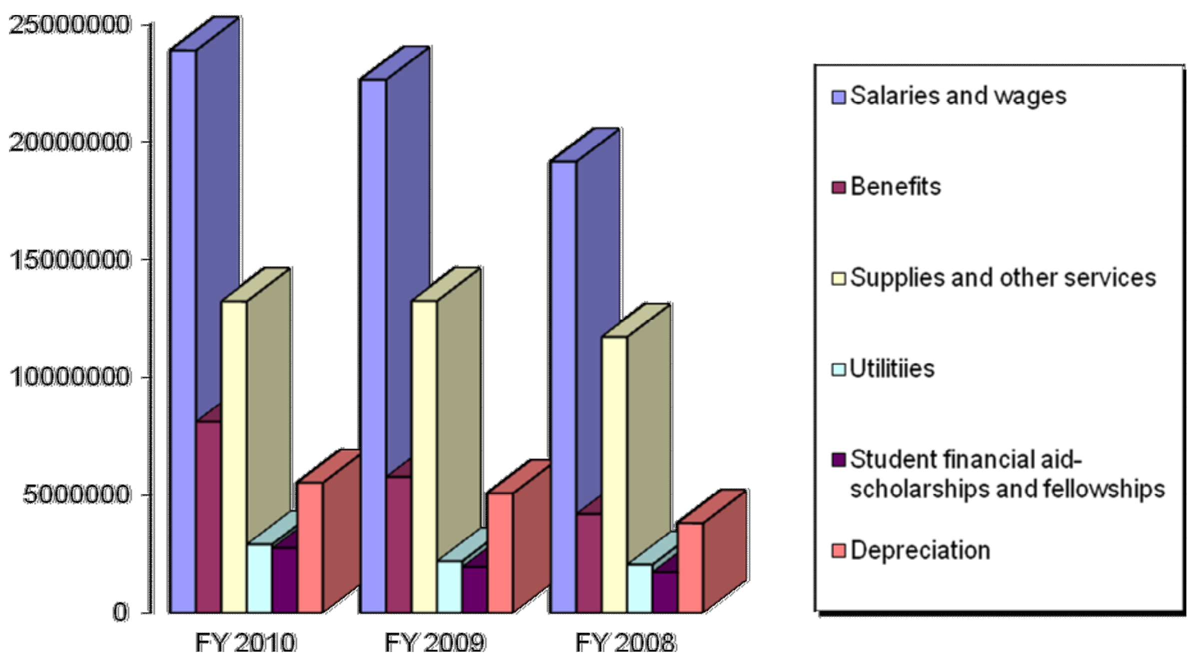


Operating Revenues:

- During fiscal year 2010, gross student tuition and fees increased $1.8 million or 7.65%. In-state fees were increased 7 % and out-of-state fees were increased 5.9%. Full-time equivalent enrollment increased 4.3% in the fall of 2009. Gross student tuition and fees increased $1.4 million or 6.33% in fiscal year 2009. In-state fees were increased 7.48% and out-of-state fees were increased 6.5%.
- During fiscal year 2010 and fiscal year 2009, Federal grants and contracts increased $222,000 and $115,000, respectively. In fiscal year 2010, the amount of federal grant revenues associated with the operations of the Robert C. Byrd Center for Legislative Studies increased. In fiscal year 2009, Federal financial aid grants increased.
- State grants and contracts increased $342,000 during fiscal year 2010 because state-funded financial aid increased. 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 Medical Transformation Grant increased $1 million. In addition, State-funded financial aid increased $179,000.

- During fiscal year 2010, sales and services of auxiliary enterprises increased $1.2 million. Wellness Center revenues increased $452,000 because student fees, member rates and the number of memberships increased. The board plan revenues associated with the Wellness Center café increased $122,000. Intercollegiate Athletic revenues increased $228,000 because student fees and revenues from summer camps increased. Bookstore sales increased $213,000. Student Center revenues increased $85,000. 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%.

Operating Expenses



Operating Expenses:

- Salaries and wages increased $1.2 million during fiscal year 2010. Additional staff positions related to strategic plan initiatives were added. In addition, full and part-time staff were added to operate the new Wellness Center. 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.
- The cost of benefits increased $2.3 million in fiscal year 2010 because the other post employment benefits expense increased. In addition, benefit costs associated with new positions were added. During fiscal year 2009, the cost of benefits increased $306,000 because salaries increased.
- During fiscal year 2009, supplies and other services increased $1.2 million. Expenses paid by the Shepherd University Research Corporation for the Medical 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 2010, utilities expenses increased $716,000. The Wellness Center was opened in the summer of 2009. Rates also increased from the previous year. During fiscal year 2009, 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 $451,000 in fiscal year 2010 because the Wellness Center was completed in the summer of 2009. During fiscal year 2009, depreciation expense increased $353,000 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 $566,000 and $706,213 during fiscal years 2010 and 2009, respectively. Interest rates declined and the invested construction proceeds decreased as expenditures were made on the Wellness Center.

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 Statements of Cash Flows
(In thousands of dollars)

	FY 2010	FY 2009	FY 2008
Net cash (used in) provided by:			
Operating activities	($ 8,362)	($ 7,874)	($ 7,347)
Noncapital financing activities	16,612	14,993	13,921
Capital and related financing activities	(8,848)	(23,555)	9,167
Investing activities	129	16,351	(14,444)
(Decrease) increase in Cash	($ 469)	($ 85)	$ 1,297
Cash, beginning of year	$ 18,216	$ 18,301	$ 17,004
Cash, end of year	$ 17,747	$ 18,216	$ 18,301

Capital Assets

The following construction project was completed in fiscal year 2009:

Wellness Center	$ 21,401,575

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, $0.3 million and $0.9 million were earned respectively in fiscal years 2008, 2007, 2006 and 2005.

Economic Outlook

Although the State of West Virginia ended fiscal year 2010 with a surplus, the economic forecasts for fiscal year 2010 and beyond are uncertain. Federal stimulus funds will reduce the negative impact of reduced tax collections for fiscal year 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.

SHEPHERD UNIVERSITY

COMBINED STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2010 AND 2009

	2010	2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 17,747,248	$ 18,215,689
Due from State	-	-
Due from the Commission	5,075	210,000
Due from other State agencies	235,530	516,371
Accounts receivable — net	586,826	656,161
Loans to students — current portion	82,895	74,291
Inventories	836,932	476,736
Total current assets	19,494,506	20,149,248
NONCURRENT ASSETS:		
Cash and cash equivalents	71,499	1,492,480
Investments	393,111	458,575
Loans to students — net of allowance of $295,923 and $293,293 in 2010 and 2009, respectively	512,245	491,313
Bond issuance costs — net	894,277	931,548
Capital assets — net	120,907,523	120,256,212
Total noncurrent assets	122,778,655	123,630,128
TOTAL	$ 142,273,161	$ 143,779,376

(Continued)

SHEPHERD UNIVERSITY

COMBINED STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2010 AND 2009

	2010	2009
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	$ 2,916,995	$ 3,975,415
Accrued liabilities	1,753,810	1,508,912
Due to the Commission	9,065	2,058
Due to other State agencies	4,444	1,418
Compensated absences — current portion	789,239	744,936
Debt obligation due to the Commission — current portion	428,061	466,137
Deferred revenue	795,453	1,016,554
Deposits held in custody for others	196,232	185,936
Bonds payable — current portion	1,120,000	1,075,000
Capital lease obligations — current portion	77,000	94,866
Total current liabilities	8,090,299	9,071,232
NONCURRENT LIABILITIES:		
Advances from federal sponsors	588,192	566,834
Compensated absences	395,278	424,080
Other postemployment benefits liability	3,795,869	893,479
Debt obligation due to the Commission	196,526	571,394
Bonds payable	47,627,210	48,769,827
Capital lease obligations	301,492	378,492
Total noncurrent liabilities	52,904,567	51,604,106
Total liabilities	60,994,866	60,675,338
NET ASSETS:		
Invested in capital assets — net of related debt	72,051,511	70,271,721
Restricted for — expendable:		
Loans	108,739	107,210
Debt service	275,558	313,100
Other restricted	109,353	74,117
Total expendable	493,650	494,427
Unrestricted	8,733,134	12,337,890
Total net assets	81,278,295	83,104,038
TOTAL	$ 142,273,161	$ 143,779,376

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, 2010 AND 2009

	2010	2009
ASSETS		
CASH AND CASH EQUIVALENTS	$ 2,150,994	$ 1,194,217
PLEDGES RECEIVABLE	1,049,743	1,541,982
CONTRIBUTIONS RECEIVABLE	19,350	15,610
ACCRUED INTEREST RECEIVABLE	65,916	76,269
PREPAID EXPENSES	2,782	4,810
INVESTMENTS	21,490,881	19,844,150
EQUIPMENT — Net	4,398	4,164
TOTAL	$24,784,064	$22,681,202
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	$ 1,115	$ 250
Accrued payroll	3,005	1,562
Custodial liabilities	3,338,541	3,230,255
Gift annuities payable	195,026	167,649
Total liabilities	3,537,687	3,399,716
NET ASSETS:		
Unrestricted	(3,226,912)	(3,195,799)
Temporarily restricted	4,399,595	4,062,557
Permanently restricted	20,073,694	18,414,728
Total net assets	21,246,377	19,281,486
TOTAL	$24,784,064	$22,681,202

See notes to financial statements.

SHEPHERD UNIVERSITY

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
OPERATING REVENUES:		
Student tuition and fees — net of scholarship allowance of $8,617,227 and $6,977,494 in 2010 and 2009, respectively	$ 16,665,777	$ 16,509,416
Contracts and grants:		
Federal	733,633	511,640
State	5,191,522	4,849,534
Private	80,124	88,495
Interest on student loans receivable	17,248	10,746
Sales and services of educational activities	45,291	57,554
Auxiliary enterprise revenue — net of scholarship allowance of $332,507 and $270,357 in 2010 and 2009, respectively	16,312,817	15,119,982
Other operating revenues	801,814	711,758
Total operating revenues	39,848,226	37,859,125
OPERATING EXPENSES:		
Salaries and wages	23,902,989	22,655,189
Benefits	8,134,122	5,788,000
Supplies and other services	13,246,489	13,260,683
Utilities	2,919,891	2,204,286
Student financial aid — scholarships and fellowships	2,760,775	1,960,453
Depreciation	5,536,626	5,085,703
Fees assessed by the Commission for operations	299,681	294,508
Total operating expenses	56,800,573	51,248,822
OPERATING LOSS	(16,952,347)	(13,389,697)

(Continued)

SHEPHERD UNIVERSITY

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
NONOPERATING REVENUES (EXPENSES):		
State appropriations	$ 10,296,444	$ 11,018,482
State fiscal stabilization funds (federal)	722,038	-
Federal Pell grants	4,818,763	3,106,863
Payments on behalf of Shepherd University	-	256,835
Investment income	56,612	623,069
Interest on indebtedness	(2,178,679)	(1,878,681)
Fees assessed by the Commission for debt service	(140,682)	(161,202)
Gifts	774,899	867,746
Loss on disposal of equipment	(15,291)	(80,277)
Net nonoperating revenues	14,334,104	13,752,835
(LOSS) INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	(2,618,243)	363,138
CAPITAL AND BOND PROCEEDS FROM COMMISSION	92,500	-
CAPITAL GRANTS AND GIFTS	-	71,250
STATE CAPITAL GRANTS (FEDERAL)	700,000	-
(DECREASE) INCREASE IN NET ASSETS	(1,825,743)	434,388
NET ASSETS — Beginning of year	83,104,038	82,669,650
NET ASSETS — End of year	$ 81,278,295	$ 83,104,038

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, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT:				
Cash contributions	$ -	$ 827,264	$ 1,601,599	$ 2,428,863
Stock contributions	-	-	40,850	40,850
Other noncash contributions	-	7,749	-	7,749
Other revenue	28,196	18,118	-	46,314
Interest and dividends	-	388,603	18,400	407,003
Net realized and unrealized (losses) gains on investments	571,085	163,016	-	734,101
Transfers	(63,287)	65,170	(1,883)	-
Transfer of net assets from the Shepherd University	-	-	-	-
Alumni Association	-	-	-	-
Net assets released from restrictions	1,132,882	(1,132,882)	-	-
Total revenue and other support	1,668,876	337,038	1,658,966	3,664,880
EXPENSES:				
Program services:				
Scholarships and awards	968,023	-	-	968,023
College support	166,283	-	-	166,283
General and administrative:				
Salaries	259,223	-	-	259,223
Investment management fees	141,670	-	-	141,670
Printing and reproduction costs	23,201	-	-	23,201
Payroll taxes and benefits	49,161	-	-	49,161
Depreciation	5,780	-	-	5,780
Administrative expense	1,983	-	-	1,983
Rent	13,060	-	-	13,060
Office supplies and postage	5,417	-	-	5,417
Insurance	6,004	-	-	6,004
Changes in gift annuities	13,507	-	-	13,507
Professional fees	18,386	-	-	18,386
Staff development	-	-	-	-
Development	23,009	-	-	23,009
Telephone	2,112	-	-	2,112
Technology	1,883	-	-	1,883
Miscellaneous	1,287	-	-	1,287
Total expenses	1,699,989	-	-	1,699,989
(DECREASE) INCREASE IN NET ASSETS	(31,113)	337,038	1,658,966	1,964,891
NET ASSETS — Beginning of year	(3,195,799)	4,062,557	18,414,728	19,281,486
NET ASSETS — End of year	$(3,226,912)	$ 4,399,595	$20,073,694	$21,246,377

See notes to financial statements.

SHEPHERD UNIVERSITY

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

SHEPHERD UNIVERSITY

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	$ 16,552,353	$ 16,508,255
Contracts and grants	6,465,972	4,977,529
Payments to and on behalf of employees	(28,871,195)	(27,458,254)
Payments to suppliers	(14,028,434)	(12,934,244)
Payments to utilities	(2,578,945)	(2,522,401)
Payments for scholarships and fellowships	(2,760,775)	(1,960,453)
Loans issued to students	(122,249)	(135,521)
Collection of loans to students	92,713	86,180
Sales and service of educational activities	45,291	57,554
Auxiliary enterprise charges	16,324,014	15,078,746
Fees assessed by the Commission	(299,681)	(294,508)
Other receipts — net	819,062	722,506
Net cash used in operating activities	(8,361,874)	(7,874,611)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	10,296,444	11,018,482
State fiscal stabilization funds (federal)	722,038	-
Federal Pell grants	4,818,763	3,106,863
Gifts	774,899	867,746
Federal student loan program — direct lending receipts	18,021,497	15,122,000
Federal student loan program — direct lending payments	(18,021,497)	(15,122,000)
Net cash provided by noncapital financing activities	16,612,144	14,993,091
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
State capital grants (federal) received	700,000	-
Capital and bond proceeds from the Commission	92,500	-
Capital grants and gifts received	-	71,250
Interest paid on capital debt and leases	(2,313,101)	(1,810,301)
Purchases of capital assets	(7,024,863)	(18,804,100)
Principal paid on capital debt and leases	(1,582,810)	(1,581,541)
Withdrawals (deposits to) from noncurrent cash and cash equivalents	1,420,981	(1,268,654)
Fees assessed by the Commission	(140,682)	(161,202)
Net cash used in capital financing activities	(8,847,975)	(23,554,548)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(393,111)	-
Proceeds from sales of investments	458,575	15,642,070
Interest on investments	63,800	708,870
Net cash provided by investing activities	129,264	16,350,940
DECREASE IN CASH AND CASH EQUIVALENTS	(468,441)	(85,128)
CASH AND CASH EQUIVALENTS — Beginning of year	18,215,689	18,300,817
CASH AND CASH EQUIVALENTS — End of year	$ 17,747,248	$ 18,215,689

(Continued)

SHEPHERD UNIVERSITY

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (16,952,347)	$ (13,389,697)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	5,536,626	5,085,703
Recovery of bad debt expense	-	-
Amortization of bond issuance costs	37,271	37,271
Net accretion of premiums/discounts on bonds payable	(22,617)	(22,617)
Expenses paid on behalf of Shepherd University	-	256,835
Changes in assets and liabilities:		
Accounts receivables — net	62,147	(167,245)
Loans to students — net	(29,536)	(49,341)
Due from the Commission	204,925	(208,288)
Due from other State agencies	280,841	(242,132)
Inventories	(360,196)	(21,854)
Accounts payable	(105,490)	19,325
Accrued liabilities	248,025	113,453
Compensated absences	15,501	67,389
Other postemployment benefits liability	2,902,390	547,260
Due to the Commission	7,007	1,113
Due to other State agencies	3,026	(4,912)
Deferred revenue	(221,101)	151,652
Deposits held in custody for others	10,296	(33,238)
Advances from federal sponsors	21,358	(15,288)
NET CASH USED IN OPERATING ACTIVITIES	$ (8,361,874)	$ (7,874,611)
NONCASH TRANSACTIONS —		
Capital additions in accounts payable	$ 1,124,776	$ 382,762

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 Governmental Accounting Standards Board standards (GASB). The financial statement presentation required by GASB provide 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 combined 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.

The audited financial statements of the Foundation are discretely presented here with the University's financial statements for the fiscal years ended June 30, 2010 and 2009, in accordance with GASB. The Foundation is a private nonprofit organization that reports under FASB standards. 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 establishes standards for external financial reporting for public colleges and universities and requires 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, 2010 or 2009.

Unrestricted Net Assets — Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the 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 expenses 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. 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 combined financial statements.

The BTI maintains the Consolidated Fund investment fund, which consists of eight investment pools and participant-directed accounts, three of which the University may invest in. These pools have been structured as multiparticipant variable net asset funds to reduce risk and offer investment liquidity diversification to the fund participants. Funds not required to meet immediate disbursement needs are invested for longer periods. A more detailed discussion of the BTI's investment operations pool can be found in its annual report. A copy of those annual reports can be obtained from the following address: 1900 Kanawha Blvd., E. Room E-122, Charleston, WV 25305 or http://wvbti.com.

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

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

Noncurrent Cash, Cash Equivalents, and Investments — Cash and investments that are (1) externally restricted to make debt service payments and long-term loans to students, or to maintain sinking or reserve funds, (2) to purchase capital or other noncurrent assets or settle long-term liabilities, and (3) permanently restricted net assets, are classified as noncurrent assets in the accompanying combined 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 $131,295 and $471,790 for the years ended June 30, 2010 and 2009, 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.

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.

GASB provides 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.

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

The University's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1 1/2 sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. For employees hired after 1988 or who were hired before 1988 but did not choose such coverage until after 1988 but before July 1, 2001, 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. Additionally, all retirees have the option to purchase continued coverage regardless of their eligibility for premium credits. 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, such as state appropriations and investment income.

Other Revenues — Other revenues consist primarily of capital grants and gifts.

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

Federal Financial Assistance Programs — The University makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students, through 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 2010 and 2009, the University received and disbursed approximately $18,021,000 and $15,122,000, 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 combined financial statements. In 2010 and 2009, the University received and disbursed approximately $5,209,000 and $3,506,000, 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.

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 Governmental Accounting Standards Board — During 2010, the University adopted GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement provides guidance regarding whether and when intangible assets should be considered capital assets for financial reporting purposes. The adoption of this statement did not have a material impact on its combined financial statements.

The University also adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. 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 adoption of this statement did not have a material impact on its combined financial statements.

Recent Statements Issued by the Governmental Accounting Standards Board — The Governmental Accounting Standards Board has issued Statement No. 59, *Financial Instruments Omnibus*, effective for fiscal years beginning after June 15, 2010. This statement improves financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards related to certain financial instruments and external investment pools. The University has not yet determined the effect that the adoption of GASB Statement No. 59 may have on its combined financial statements.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents as of June 30, 2010 and 2009, was held as follows:

	2010		
	Current	Noncurrent	Total
State Treasurer	$ 17,337,575	$ -	$ 17,337,575
Trustee Bank	-	71,499	71,499
Bank	409,673	-	409,673
	$ 17,747,248	$ 71,499	$ 17,818,747

	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

Cash and cash equivalents with the State Treasurer includes $14,512 in 2010 and $58,865 in 2009 of restricted cash for grants.

Cash and cash equivalents with trustee banks includes 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, 2010 and 2009, was $71,499 and $1,492,480, respectively, and was invested in U.S. Treasury money market funds.

The combined carrying amount of cash in the bank at June 30, 2010 and 2009 was $409,673 and $238,009, respectively, as compared with the combined bank balance of $516,874 and $304,410, 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 University's agent.

Amounts with the State Treasurer as of June 30, 2010 and 2009, 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 is 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 in which the University invest, all are subject to credit risk.

WV Money Market Pool — 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, 2010 and 2009, 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, 2010 and 2009, the WV Money Market Pool investments had a total carrying value of $2,876,711,000 and $2,570,261,000, respectively, of which the University's ownership represents 0.56% and 0.63%, respectively.

WV Government Money Market Pool — Credit Risk — For the years ended June 30, 2010 and 2009, 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, 2010 and 2009, the WV Government Money Market Pool investments had a total carrying value of $221,183,000 and $283,826,000, of which the University's ownership represents 0.05% and 0.05%, 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*		2010		2009	
Security Type	Moody's	S&P	Carrying Value	Percent of Pool Assets	Carrying Value	Percent of Pool Assets
Corporate asset backed securities	Aaa	AAA	$ 24,330	5.37 %	$ 16,402	5.21 %
	Aaa	NR *	10,353	2.28	5,136	1.63
	Aa3	AAA	1,000	0.22	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
	Ba1	CC**	45	0.01	-	-
	Ba2	BB**	219	0.05	-	-
	Ba3	AAA	-	-	645	0.20
	B1	AAA	-	-	779	0.25
	B1	BBB**	605	0.13	-	-
	B1	CCC**	857	0.19	-	-
	B2	B**	-	-	493	0.16
	B2	CCC**	366	0.08	539	0.17
	B3	AAA	-	-	949	0.30
	B3	B**	442	0.10	-	-
	B3	BBB**	247	0.05	-	-
	B3	CCC**	554	0.12	-	-
	Caal	BB**	-	-	254	0.08
	Caal	CCC**	230	0.05	-	-
	Caa2	CCC**	779	0.17	-	-
	NR *	AAA	3,538	0.78	679	0.22
			43,565	9.60	29,372	9.33
Corporate bonds and notes	Aaa	AAA	72,549	16.00	47,204	14.99
	Aaa	AA	2,060	0.46	-	-
	Aa1	AA	5,430	1.20	4,445	1.41
	Aa1	A	-	-	2,052	0.65
	Aa2	AAA	-	-	3,040	0.96
	Aa2	AA	6,650	1.47	9,066	2.88
	Aa3	AA	6,722	1.48	-	-
	Aa3	A	13,850	3.05	7,831	2.49
	A1	AA	15,485	3.41	4,813	1.53
	A1	A	21,098	4.65	5,522	1.75
	A2	A	41,093	9.06	32,040	10.17
	A3	A	4,158	0.92	7,024	2.23
	Baa3	A	-	-	2,067	0.66
			189,095	41.70	125,104	39.72
U.S. agency bonds	Aaa	AAA	40,180	8.86	60,250	19.13
U.S. Treasury notes***	Aaa	AAA	158,423	34.93	88,805	28.20
U.S. agency mortgage backed securities****	Aaa	AAA	4,540	1.00	4,975	1.58
Money market funds	Aaa	AAA	17,715	3.91	6,426	2.04
			$ 453,518	100 %	$ 314,932	100 %

* NR = Not Rated

** The securities were not in compliance with BTI Investment Policy at June 30, 2010 and/or 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, 2010 and 2009, the University's ownership represents 0.31% and 0.10%, 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:

	2010		2009	
Security Type	**Carrying Value (in Thousands)**	**WAM (Days)**	**Carrying Value (in Thousands)**	**WAM (Days)**
Repurchase agreements	$ 174,980	1	$ 212,010	1
U.S. Treasury notes	65,153	140	-	-
U.S. Treasury bills	476,670	35	483,714	69
Commercial paper	855,844	18	592,479	32
Certificates of deposit	281,000	45	128,402	56
U.S. agency discount notes	606,048	52	635,602	57
Corporate bonds and notes	20,000	19	73,812	38
U.S. agency bonds/notes	246,990	55	294,019	70
Money market funds	150,026	1	150,223	1
	$2,876,711	33	$2,570,261	47

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:

	2010		2009	
Security Type	**Carrying Value (in Thousands)**	**WAM (Days)**	**Carrying Value (in Thousands)**	**WAM (Days)**
Repurchase agreements	$ 66,600	1	$ 53,000	1
U.S. Treasury notes	8,526	114	-	-
U.S. Treasury bills	29,982	72	74,424	94
U.S. agency discount notes	36,465	115	87,662	55
U.S. agency bonds/notes	79,532	30	68,608	37
Money market funds	78	1	132	1
	$ 221,183	44	$ 283,826	51

The overall effective duration 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, 2010 and 2009:

	2010		2009	
Security Type	**Carrying Value (in Thousands)**	**Effective Duration (Days)**	**Carrying Value (in Thousands)**	**Effective Duration (Days)**
U. S. Treasury bonds/notes	$ 158,423	583	$ 88,805	917
Corporate notes	189,095	560	125,104	559
Corporate asset backed securities	43,565	679	29,372	622
U.S. agency bonds/notes	40,180	288	60,250	752
U.S. agency mortgage backed securities	4,540	360	4,975	540
Money market funds	17,715	1	6,426	1
	$ 453,518	530	$ 314,932	691

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

Concentration of credit risk is the risk of loss attributed to the magnitude of the BTI's 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 or 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, 2010 and 2009, consist of the following:

	2010	2009
Mortgage-backed securities	$ 393,111	$ -
U.S. Treasury money market fund	-	458,575
	$ 393,111	$ 458,575

Investments are held with the Trustee Bank and are restricted by the bond indentures and invested in U.S. Treasury money market funds and mortgage-backed securities. 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 is $458,575. The mortgage-backed securities are issued by the United States Government or Fannie Mae. These funds have no significant custodial credit risk nor interest rate risk. These funds are not exposed to a significant 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, 2010 and 2009, are categorized as Level 1.

5. ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2010 and 2009, are as follows:

	2010	2009
Student tuition and fees — net of allowance for doubtful accounts of $251,315 and $208,830 in 2010 and 2009, respectively	$ 453,125	$ 387,230
Accrued interest receivable — the Commission	4,500	11,165
Other accrued interest receivable	1	525
Grants and contracts receivable	129,200	257,241
	$ 586,826	$ 656,161

6. CAPITAL ASSETS

Summary of capital assets transactions for the University as of June 30, 2010 and 2009, are as follows:

	2010			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 1,120,925	$	$	$ 1,120,925
Construction in progress	1,137,415	5,083,282	1,879,060	4,341,637
Total capital assets not being depreciated	$ 2,258,340	$ 5,083,282	$ 1,879,060	$ 5,462,562
Other capital assets:				
Land improvements	$ 2,019,745	$ 371,318	$	$ 2,391,063
Infrastructure	9,112,675			9,112,675
Buildings	138,093,979	1,639,037		139,733,016
Equipment	9,790,250	855,945	274,852	10,371,343
Library books	4,025,814	132,706	39,901	4,118,619
Total other capital assets	163,042,463	2,999,006	314,753	165,726,716
Less accumulated depreciation for:				
Land improvements	279,808	153,555		433,363
Infrastructure	2,420,097	577,111		2,997,208
Buildings	33,812,003	3,511,279		37,323,282
Equipment	5,289,087	1,112,226	259,561	6,141,752
Library books	3,243,596	182,455	39,901	3,386,150
Total accumulated depreciation	45,044,591	5,536,626	299,462	50,281,755
Other capital assets — net	$ 117,997,872	$ (2,537,620)	$ 15,291	$ 115,444,961
Capital asset summary:				
Capital assets not being depreciated	$ 2,258,340	$ 5,083,282	$ 1,879,060	$ 5,462,562
Other capital assets	163,042,463	2,999,006	314,753	165,726,716
Total cost of capital assets	165,300,803	8,082,288	2,193,813	171,189,279
Less accumulated depreciation	45,044,591	5,536,626	299,462	50,281,755
Capital assets — net	$ 120,256,212	$ 2,545,662	$ 1,894,351	$ 120,907,523

	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

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.

At June 30, 2010, the University had no significant outstanding contractual commitments for property, plant, and equipment.

7. LEASES

Future annual lease payments on capital leases for years subsequent to June 30, 2010, are as follows:

Years Ending June 30	Principal	Interest	Total
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
2015	57,141	602	57,743
Total	$ 378,492	$ 25,707	$ 404,199

The net book value of capital assets held under capital leases as of June 30, 2010 and 2009, was $697,018 and $757,019, respectively.

8. LONG-TERM LIABILITIES

Summary of long-term obligation transactions for the University for the years ended June 30, 2010 and 2009, are as follows:

	2010				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and capital leases:					
Bonds payable	$49,844,827	$ -	$1,097,617	$48,747,210	$1,120,000
Capital lease obligations	473,358	-	94,866	378,492	77,000
Total bonds and capital leases	50,318,185	-	1,192,483	49,125,702	1,197,000
Other long-term liabilities:					
Advances from federal sponsors	566,834	21,358	-	588,192	-
Compensated absences	1,169,016	15,501	-	1,184,517	789,239
Other postemployment benefits liability	893,479	2,902,390	-	3,795,869	-
Debt obligation due to Commission	1,037,531	-	412,944	624,587	428,061
Total other long-term liabilities	3,666,860	2,939,249	412,944	6,193,165	1,217,300
Total long-term liabilities	$53,985,045	$2,939,249	$1,605,427	$55,318,867	$2,414,300

	2009				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and capital leases:					
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
Total bonds and capital leases	51,523,721	-	1,205,536	50,318,185	1,169,866
Other long-term liabilities:					
Advances from federal sponsors	582,122	-	15,288	566,834	-
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
Total other long-term liabilities	3,466,121	614,649	413,910	3,666,860	1,211,073
Total long-term liabilities	$54,989,842	$614,649	$1,619,446	$53,985,045	$2,380,939

9. BONDS PAYABLE

Bonds payable as of June 30, 2010 and 2009, consisted of the following:

	Interest Rate	Annual Principal Installment Due	Principal Amount Outstanding 2010	Principal Amount Outstanding 2009
Student Fee Revenue Bonds, due through 2033	4.0%–5.125%	$105,000–370,000	$ 5,320,000	$ 5,440,000
Infrastructure Revenue Bonds, due through 2024	3.2%–4.5%	$125,000–240,000	2,590,000	2,730,000
Residence Facilities Revenue Bonds, due through 2035	3.5%–5.0%	$435,000–1,450,000	21,580,000	22,040,000
Wellness Center Facilities Revenue Bonds, due through 2037	3.75%–5.0%	$435,000–1,170,000	18,700,000	19,055,000
			48,190,000	49,265,000
Discount			(144,065)	(149,614)
Premium			701,275	729,441
			$ 48,747,210	$ 49,844,827

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 to pay debt service.

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 $393,111 and $397,642 as of June 30, 2010 and 2009, respectively.

For both the years ended June 30, 2010 and 2009, 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, 2010 and 2009, 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, 2010 and 2009, 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, 2010 and 2009, 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, 2010 and 2009, 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 years ended June 30, 2010 and 2009, 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, 2010, are as follows:

Years Ending June 30	2003 Bonds Principal	2003 Bonds Interest	2004 Bonds Principal	2004 Bonds Interest
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	145,000	239,280	165,000	84,675
2016–2020	835,000	1,084,309	920,000	319,775
2021–2025	1,075,000	843,270	895,000	102,825
2026–2030	1,365,000	532,872	-	-
2031–2034	1,370,000	145,036	-	-
Total	$ 5,320,000	$ 3,859,074	$ 2,590,000	$ 900,290

Years Ending June 30	2005 Bonds Principal	2005 Bonds Interest	2007 Bonds Principal	2007 Bonds Interest
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	550,000	972,500	430,000	791,800
2016–2020	3,180,000	4,450,000	2,465,000	3,630,350
2021–2025	4,055,000	3,571,500	3,130,000	2,969,775
2026–2030	5,175,000	2,451,750	3,910,000	2,186,256
2031–2035	6,600,000	1,022,000	4,905,000	1,200,681
2036–2037	-	-	2,290,000	155,700
Total	$ 21,580,000	$ 16,547,875	$18,700,000	$ 14,254,612

Years Ending June 30	Total Principal	Total Interest
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	1,290,000	2,088,255
2016–2020	7,400,000	9,484,434
2021–2025	9,155,000	7,487,370
2026–2030	10,450,000	5,170,878
2031–2035	12,875,000	2,367,717
2036–2037	2,290,000	-
Total	$ 48,190,000	$ 35,406,151

10. OTHER POSTEMPLOYMENT BENEFITS

In accordance with GASB, OPEB costs are accrued based upon invoices received from PEIA based upon actuarial determined amounts. At June 30, 2010 and 2009, the noncurrent liability related to OPEB costs was $3,795,869 and $893,479, respectively. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was $3,497,507 and $595,117, respectively, during 2010, and $1,470,539 and $666,445, respectively, during 2009. As of and for the years ended June 30, 2010 and 2009, there were 30 and 31 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, 2010, the University has recognized all of the amount authorized. Additionally, the University received $0 from construction period interest proceeds.

Debt services assessed as of June 30, 2010 and 2009, are as follows:

	2010	2009
Principal	$ 412,944	$ 398,622
Interest	44,561	64,492
Other	95,821	96,710
	$ 553,326	$ 559,824

12. UNRESTRICTED NET ASSETS

The University did not have any designated unrestricted net assets as of June 30, 2010 or 2009.

	2010	2009
Total unrestricted net assets before OPEB liability	$ 12,529,003	$ 13,231,369
Less: OPEB liability	3,795,869	893,479
Total unrestricted net assets	$ 8,733,134	$ 12,337,890

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, 2009 and 2008, only one employee has elected this plan.

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, 2010 and 2009. Required employee contributions were at the rate of 6% of total annual salary for the years ended June 30, 2010 and 2009. 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, 2010, 2009, and 2008, were $ 135,382, $132,723, and $126,050, respectively, which consisted of $93,249, $91,386, and $88,408 from the University in 2010, 2009, and 2008, respectively, and $42,133, $41,337, and $37,641, from the covered employees in 2010, 2009, and 2008, 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 Great West 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, 2010, 2009, and 2008, were $2,254,392, $2,050,336, and $2,011,173, respectively, which consisted of equal contributions from the University and covered employees in 2010, 2009, and 2008 of $1,127,196, $1,025,168, and $1,005,587, respectively.

Total contributions to the Great West for the years ended June 30, 2010, 2009, and 2008, were $28,651, $2,858, and $3,256, respectively, which consisted of equal contributions from the University and the covered employee in 2010, 2009, and 2008 of $14,326, $1,429, and $1,628, respectively.

The University's total payroll for the years ended June 30, 2010 and 2009, was $23,921,709 and $21,166,818, respectively, and total covered employees' salaries in the STRS, TIAA-CREF, and Great West were $702,231, $18,786,601, and $238,763 in 2010, and $688,946, $17,086,131, and $23,813 in 2009, 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.

Based on the Foundation's audited financial statements as of June 30, 2010 and 2009, the Foundation's net assets (including unrealized gains) totaled $21,246,377 and $19,281,486, 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, 2010 and 2009, the Foundation contributed $757,140 and $864,057, 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 combined financial statements under the blended component unit requirements. They are not included in the accompanying University's combined financial statements under the discretely presented component unit requirements as 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, 2010 or 2009.

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, 2010 and 2009:

	Student Fee Revenue Bonds 2003		Infrastructure Revenue Bonds 2004		Residence Facilities Projects Revenue Bonds 2005		Wellness Center Revenue Bonds 2007	
	2010	2009	2010	2009	2010	2009	2010	2009
Assets:								
Current assets	$ 1,102,079	$ 986,539	$ 389,494	$ 300,886	$ 6,566,333	$ 6,414,326	$ 672,312	$ 672,928
Noncurrent assets	4,404,024	4,606,730	2,625,593	2,870,323	21,750,626	21,985,812	19,781,597	21,052,467
Total assets	$ 5,506,103	$ 5,593,269	$3,015,087	$3,171,209	$28,316,959	$28,400,138	$ 20,453,909	$ 21,725,395
Liabilities								
Current liabilities	$ 147,001	$ 142,401	$ 153,803	$ 149,153	$ 1,635,615	$ 1,472,223	$ 516,324	$ 1,096,539
Noncurrent liabilities	5,160,859	5,284,355	2,444,590	2,589,569	22,102,768	22,687,932	18,220,478	18,586,472
Total liabilities	5,307,860	5,426,756	2,598,393	2,738,722	23,738,383	24,160,155	18,736,802	19,683,011
Net (deficit) assets:								
Invested in capital assets — net of related debt	(1,435,329)	(1,292,927)	(38,950)	131,329	(1,280,224)	(1,237,294)	831,760	1,588,868
Restricted:								
Debt service	531,495	472,911	66,149	275	283,880	(88,240)	288,311	(71,844)
Capital projects	-	-	-	-	-	-	-	-
Unrestricted	1,102,077	986,529	389,495	300,883	5,574,920	5,565,517	597,036	525,360
Total net assets	198,243	166,513	416,694	432,487	4,578,576	4,239,983	1,717,107	2,042,384
Total net assets and liabilities	$ 5,506,103	$ 5,593,269	$3,015,087	$3,171,209	$28,316,959	$28,400,138	$ 20,453,909	$ 21,725,395

Condensed Statements of Revenues, Expenses, and Changes in Net Assets for the years ended June 30, 2010 and 2009:

	Student Fee Revenue Bonds 2003		Infrastructure Revenue Bonds 2004		Residence Facilities Projects Revenue Bonds 2005		Wellness Center Revenue Bonds 2007	
	2010	2009	2010	2009	2010	2009	2010	2009
Operating:								
Operating revenues	$ 458,088	$ 449,364	$ 329,045	$ 317,020	$ 14,608,087	$ 13,745,877	$ 2,367,466	$1,892,336
Operating expenses	(173,297)	(136,274)	(235,381)	(235,229)	(13,240,274)	(12,155,228)	(1,812,027)	(571,379)
Net operating income	284,791	313,090	93,664	81,791	1,367,813	1,590,649	555,439	1,320,957
Nonoperating:								
Nonoperating revenues	12,592	22,827	33	356	15,543	87,999	379	337,505
Nonoperating expenses	(265,653)	(269,637)	(109,490)	(113,182)	(1,044,763)	(1,061,576)	(881,101)	(895,877)
Net nonoperating loss	(253,061)	(246,810)	(109,457)	(112,826)	(1,029,220)	(973,577)	(880,722)	(558,372)
Increase (decrease) in net assets	31,730	66,280	(15,793)	(31,035)	338,593	617,072	(325,283)	762,585
Net assets — beginning of year	166,513	100,233	432,487	463,522	4,239,983	3,622,911	2,042,384	1,279,799
Net assets — end of year	$ 198,243	$ 166,513	$ 416,694	$ 432,487	$ 4,578,576	$ 4,239,983	$ 1,717,101	$2,042,384

Condensed Statements of Cash Flows for the years ended June 30, 2010 and 2009:

	Student Fee Revenue Bonds 2003		Infrastructure Revenue Bonds 2004		Residence Facilities Projects Revenue Bonds 2005		Wellness Center Revenue Bonds 2007	
	2010	2009	2010	2009	2010	2009	2010	2009
Net cash provided by operating activities	$ 458,342	$ 448,722	$ 329,365	$ 315,896	$ 2,010,665	$ 2,246,416	$ 1,242,027	$ 1,534,243
Net cash used in capital and related financing	(608,130)	(463,960)	(240,407)	(248,485)	(3,493,688)	(3,612,211)	(2,105,500)	(1,920,749)
Net cash provided by investing activities	265,652	269,914	-	-	1,079,077	1,171,729	863,952	876,056
Increase (decrease) in cash and cash equivalents	115,864	254,676	88,958	67,411	(403,946)	(194,066)	479	489,550
Cash and cash equivalents — beginning of year	982,216	727,540	295,514	228,103	5,767,796	5,961,862	654,116	164,566
Cash and cash equivalents — end of year	$ 1,098,080	$ 982,216	$ 384,472	$ 295,514	$ 5,363,850	$ 5,767,796	$ 654,595	$ 654,116

18. COMPONENT UNIT'S DISCLOSURES

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations — The Shepherd University Foundation, Inc., (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 Shepherd University.

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

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

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

Temporarily Restricted Net Assets — Net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time. Restrictions relate to many different scholarships and to 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. 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 changes in net assets.

Advertising — Advertising costs are expensed as incurred and amounted to $2,765 and $3,170 for the years ended June 30, 2010 and 2009, 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 statement 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.

The Foundation follows the FASB Accounting Standards Codification, which provides guidance on accounting for uncertainty in income taxes recognized in an enterprise's financial statements. As of June 30, 2010, the Foundation had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Generally, the tax years before 2007 are no longer subject to examination by federal, state or local taxing authorities.

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 donors.

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 or 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, 2016.

Pledges receivable as of June 30, 2010 and 2009 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.

	2010	**2009**
Receivable in less than one year	$ 586,295	$ 627,903
Receivable in one to five years	501,346	990,495
Receivable in six to ten years	-	15,000
Total pledges receivable	1,087,641	1,633,398
Less discount to net present value	(37,898)	(91,416)
Net pledges receivable	$ 1,049,743	$ 1,541,982

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, 2010 and 2009 are composed of the following:

Description	2010 Cost	2010 Market
Certificates of deposit	$ 1,187,160	$ 1,187,174
U. S. Government Securities	8,301,192	9,363,193
Corporate bonds and notes	1,064,094	1,061,208
Common stocks	10,309,981	9,738,512
Investment Securities	$ 20,862,427	$ 21,350,087

Description	2009 Cost	2009 Market
Certificates of deposit	$ 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

At June 30, 2010 and 2009, there was $1,137,184 and $382,615, respectively, of cash and cash equivalents held in the brokerage accounts available to be invested by the Foundation.

The investment in real estate is comprised of the following:

Description	2010 Cost	2010 Accumulated Depreciation	2010 Net Book Value
Land	$ 40,000	$ -	$ 40,000
Building	160,202	59,408	100,794
	$ 200,202	$ 59,408	$ 140,794

Description	2009 Cost	2009 Accumulated Depreciation	2009 Net Book Value
Land	$ 40,000	$ -	$ 40,000
Building	160,202	55,403	104,799
	$ 200,202	$ 55,403	$ 144,799

The following is a summary of the Foundation's investments at June 30, 2010 and 2009:

	2010	
Description	**Cost**	**Market**
Investment securities	$20,862,427	$21,350,087
Real estate	200,202	140,794
	$21,062,629	$21,490,881

	2009	
Description	**Cost**	**Market**
Investment securities	$19,883,727	$19,699,351
Real estate	200,202	144,799
	$20,083,929	$19,844,150

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 services firms and government intervention to solidify others. 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 into 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 stating that on September 30, 2009 the suspension will be lifted. For that quarter and each succeeding quarter, Collins will determine on an individual fund basis 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 (SPV's). Cash will be distributed from the SPV's as it becomes available. As of December 31, 2009 Collins funds returned to their normal redemption terms with no liquidity restrictions.

D. EQUIPMENT

Equipment consists of the following:

	2010	**2009**
Office equipment (at cost)	$ 18,028	$ 16,019
Accumulated depreciation	(13,630)	(11,855)
Net book value	$ 4,398	$ 4,164

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 2009 and 2009 are as follows:

	2010	2009
Custodial receipts	$ 407,119	$ 582,254
Custodial payments	(453,681)	(530,787)
Transfer of custodial accounts from The Shepherd University Alumni Association, Inc.	-	48,709
Interest and gains on investments	154,848	181,058
Net increase (decrease) in custodial liabilities	$ 108,286	$ 281,234

F. GIFT ANNUITIES

Gift annuities payable consist of the following liabilities:

	2010	2009
Daniel and Orpha Cowgill Annuity	$ 37,793	$ 39,576
James K. Wright, Jr. Annuity	36,198	38,770
Benjamin and Mary Lou Mehrling Annuity	4,801	5,019
James K. and Gladys L. Wright Annuity	16,106	16,935
Jack and Pat Egle Annuity	33,994	-
MEO Annuity	66,134	67,349
Total	$ 195,026	$ 167,649

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, 2010 and 2009 was $8,149 and $9,494, 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 2010 and 2009, 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 (University). The Foundation utilizes space owned by the University but does not pay rent. In-kind revenue and expense of $12,600 has been recorded for the use of this space as of June 30, 2010 and 2009.

K. FAIR VALUE MEASUREMENTS

Accounting Standards Codification (ASC) 820, *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 hierarchy 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, 2010 and 2009 are as follows:

	2010			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government Securities	$ 9,363,193	$ 9,363,193	$ -	$ -
Corporate bonds and notes	1,061,208	1,061,208	-	-
Common stocks and mutual funds	9,738,512	8,824,842	-	913,670
	$ 20,162,913	$ 19,249,243	$ -	$ 913,670

	2009			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
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
	$ 18,241,045	$ 17,403,552	$ -	$ 837,493

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 prices, other relevant information available generated by market transactions, 3rd party valuations, and estimated pricing models or discounted cash flows.

Total realized gain (loss) for the investments noted above that is included in the change in net assets at June 30, 2010 and 2009 was $117,735 and $(1,434,881), respectively. The unrealized gain (loss) for the investments noted above included in the change in net assets at June 30, 2010 and 2009 was $616,366 and $(1,254,768).

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, 2010:

Fair value as of July 1	$ 837,493
Unrealized gain on mutual funds	76,177
Fair value as of June 30	$ 913,670

L. 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 permanently restricted net assets based on the donor-imposed restrictions. The classification is based on the board's interpretation of West Virginia's statutes that govern such endowments and its interpretations of donor intent and the related endowment bylaws.

The Foundation considers several factors when making a determination to appropriate or accumulate donor-restricted endowment funds. These factors include the duration and preservation of the fund, the mission of the Foundation, the purpose of any donor-restrictions, 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 this 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 of 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 53-63% 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, 2010 and 2009:

	2010	2009
Board designated endowment funds	$ 142,420	$ 137,012
Donor permanently restricted endowment funds	19,931,274	18,277,716
	$ 20,073,694	$ 18,414,728

The changes in endowment net assets for the years ended June 30, 2010 and 2009 were as follows:

Endowment net assets at July 1, 2008	$ 18,128,282
Investment return:	
Investment income	18,131
Net appreciation	-
Total investment return	18,131
Contributions	218,122
Transfers	50,193
Endowment net assets at June 30, 2009	18,414,728
Investment return:	
Investment income	18,400
Net appreciation	-
Total investment return	18,400
Contributions	1,642,449
Transfers	(1,883)
Endowment net assets at June 30, 2010	$ 20,073,694

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 $598,000. These deficiencies resulted from unfavorable market fluctuations during the past several years.

M. SUBSEQUENT EVENTS

The Foundation has evaluated events and transactions subsequent to June 30, 2010 through August 31, 2010, the date these financial statements were available to be issued. Based on the definitions and requirements of generally accepted accounting principles, management has not identified any events that have occurred subsequent to June 30, 2010 and through August 31, 2010, that require recognition or disclosure in the financial statements.

19. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2010 and 2009, the following represents operating expenses within both natural and functional classifications:

2010	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Fees Assessed by the Commission	Total
Instruction	$ 10,738,707	$ 3,419,443	$ 1,090,575	$ 421	$ -	$ -	$ -	$ 15,249,146
Research	31,588	9,979	1,456	-	-	-	-	43,023
Public service	397,691	65,701	838,374	380	-	-	-	1,302,146
Academic support	1,804,988	616,225	1,249,720	1,839	-	-	-	3,672,772
Student services	2,136,847	752,516	1,300,025	868	-	-	-	4,190,256
General institutional support	2,594,461	1,116,315	1,483,516	1,657	-	-	-	5,195,949
Operations and maintenance of plant	1,621,851	625,324	1,293,082	1,423,257	-	-	-	4,963,514
Student financial aid	-	-	-	-	2,760,775	-	-	2,760,775
Auxiliary enterprises	4,576,856	1,528,619	5,989,741	1,491,469	-	-	-	13,586,685
Depreciation	-	-	-	-	-	5,536,626	-	5,536,626
Other	-	-	-	-	-	-	299,681	299,681
Total	$ 23,902,989	$ 8,134,122	$ 13,246,489	$ 2,919,891	$ 2,760,775	$ 5,536,626	$ 299,681	$ 56,800,573

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

20. SUBSEQUENT EVENTS

During August 2010, the West Virginia Development Office issued approximately $162 million of Education, Arts, Science and Tourism (EAST) bonds. The Commission, as provided in the State Code, received 60%, or $97.2 million, of the proceeds to help fund various building and campus renewal projects. The University has been approved to receive $1,150,000 of these proceeds. The West Virginia Development Office is responsible for repayment of the debt.

* * * * * *

Deloitte.

Deloitte & Touche LLP
2500 One PPG Place
Pittsburgh, PA 15222-5401
USA
Tel: +1 412 338 7200
Fax: +1 412 338 7380
www.deloitte.com

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, 2010, and have issued our report thereon dated October 25, 2010, 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 25, 2010