Shepherd University

Combined Financial Statements as of and for the Years Ended June 30, 2013 and 2012, and Independent Auditors' Reports

SHEPHERD UNIVERSITY

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INDEPENDENT AUDITORS' REPORT

To the Governing Board of
Shepherd University

Report on the Financial Statements

We have audited the accompanying combined financial statements of Shepherd University (the "University") which comprise the combined statement of net position as of June 30, 2013, and the related combined statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these combined financial statements based on our audit. 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 auditors. 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 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the 2013 combined financial statements referred to above 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, 2013, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the financial statements, the University early adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-9 be presented to supplement the combined financial statements. Such information, although not a part of the combined financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the combined financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the combined financial statements, and other knowledge we obtained during our audit of the combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

The combined financial statements of the University as of June 30, 2012, were audited by other auditors whose report dated November 9, 2012, expressed an unmodified opinion on those combined financial statements. As discussed in Note 2 to the combined financial statements, the University has adjusted its 2012 combined financial statements to retrospectively apply the change in accounting for GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* The other auditors reported on the combined financial statements before the retrospective adjustment.

As part of our audit of the 2013 combined financial statements, we also audited the adjustments to the 2012 combined financial statements to retrospectively apply the change in accounting as described in Note 2. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the University's 2012 combined financial statements other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2012 combined financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2013, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Hayflich Grigoraci PLLC

Huntington, West Virginia
October 22, 2013

Shepherd University

Management's Discussion and Analysis

Fiscal Years 2013 and 2012

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 include the Master of Arts in Teaching, Master of Arts in Curriculum and Instruction, Master of Business Administration, the Master of Arts in College Student Development and Administration, and the Master of Music and Music Education. The University is accredited by The Higher Learning Commission of the North Central Association.

Overview of the Financial Statements and Financial Analysis

This discussion will emphasize significant changes reflected in the fiscal year 2013 data compared to the financial statements presented for fiscal year 2012. There are three financial statements presented: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; 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 Position

The Statement of Net Position presents the assets, liabilities, and net position of the University as of June 30, 2013, and 2012. The Statement of Net Position presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net position (assets minus liabilities). The difference between current and noncurrent assets and liabilities are discussed in the footnotes to the financial statements.

From the data presented, readers of the Statement of Net Position 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 Position provides a picture of net position and their availability for expenditure by the University.

Components of net position are divided into three major categories. The first category, net investment in capital assets, provides the institution's equity in property, plant, and equipment owned by the institution. The second net position category is restricted, which is divided into two categories, nonexpendable and expendable. Shepherd University does not currently have nonexpendable restricted resources since all funds of this nature are directed to the Shepherd University Foundation. The corpus of nonexpendable restricted resources is available only for investment purposes. Expendable restricted resources 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 position. Unrestricted components of net position are available for any lawful purpose of the institution.

Condensed Combined Schedules of Net Position

(In thousands)

	June 30		
	2013	2012	2011
Assets:			
Cash	$ 16,680	$ 20,846	$ 18,887
Other Current Assets	1,246	2,245	1,960
Noncurrent Assets	137,869	125,169	121,016
Total Assets	155,795	148,260	141,863
Liabilities:			
Current Liabilities	9,250	10,581	8,394
Noncurrent Liabilities	54,584	55,588	54,158
Total Liabilities	63,834	66,169	62,552
Net Position	$ 91,961	$ 82,091	$ 79,311

Assets:

- Total Assets for fiscal year 2013 increased approximately $7.5 million.
- Cash at the end of fiscal year 2013 decreased by approximately $4.2 million due mainly to spending $2.0 million received from the Foundation for the University's Center for Contemporary Arts II project as well as spending $3.8 million for the Route 480 Underpass project.
- Capital assets increased approximately $12.8 million in fiscal year 2013 completion of the Center for Contemporary Arts II and the Route 480 Underpass.

Liabilities:

- Total Liabilities for fiscal year 2013 decreased approximately $2.3 million.
- Unearned revenue decreased by approximately $1.9 million related to use of Foundation funds transferred to the University for the Center for Contemporary Arts II project.
- Compensated absences increased $349,000 due to fewer employees using their annual leave.
- The Public Employees Insurance Agency (PEIA) established the West Virginia Retiree Health Benefits Trust Fund in 2008 to assume responsibility for post-employment benefits previously accrued by the University. The total liability is allocated to each affected State agency by the PEIA. During fiscal year 2012, this allocation to the University resulted in a post-employment benefits liability increase of $204,000. The Annual Required Contribution (ARC) per policy per month was $79 in FY13, $794 in FY12 and $742 in FY11. The changes are the result of changes in discount rate and other factors used in the actuarial study that PEIA uses to determine the ARC amount.
- The Non-Current portion of Bonds Payable and Leases Payable declined by $1.2 million.

Net Position

- Total Net Position increased approximately $9.9 million in fiscal year 2013.
- During fiscal year 2013, Invested in Capital Assets increased approximately $12.8 million as a result of completion of the University's Center for Contemporary Arts Phase II and Route 480 Underpass projects.
- Unrestricted assets declined approximately $4.5 million during the period due mainly to the use of $2.95 million for the Route 480 Underpass project and $1.9 million Foundation funds for the Center for Contemporary Arts II project.

Statement of Revenues, Expenses, and Changes in Net Position

Changes in total net position on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of the statement is to present the revenues received and expenses paid by the institution, both operating and non-operating, 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 non-operating revenues. For example, State appropriations are non-operating because they are provided by the State to the institution without the State directly receiving commensurate goods and services for those revenues.

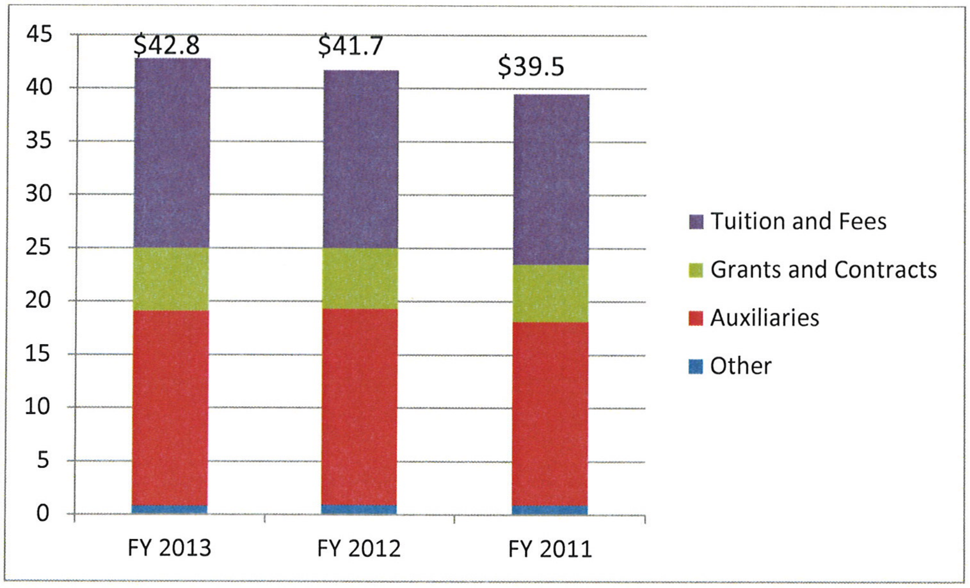
Condensed Combined Schedules of Revenues, Expenses, and Changes in Net Position

(In thousands)

	FY 2013	FY 2012	FY 2011
Operating Revenues	$ 42,821	$ 41,731	$ 39,459
Operating Expenses	58,609	59,959	57,276
Operating Loss	(15,788)	(18,228)	(17,817)
Nonoperating Revenues - Net	15,555	15,772	15,011
Loss before Other Revenues, Expenses, Gains or Losses	(233)	(2,456)	(2,806)
Capital and Bond Proceeds from Commission	6,112	4,679	1,274
Capital and Bond Proceeds from State	2,027	394	452
Private Capital Grants	1,964	162	8
Increase in Net Position	9,870	2,779	(1,072)
Net Position - Beginning of Year	82,091	79,312	80,384
Net Position - End of Year	$ 91,961	$ 82,091	$ 79,312

Operating Revenues –FY 2013-2011

(In millions)

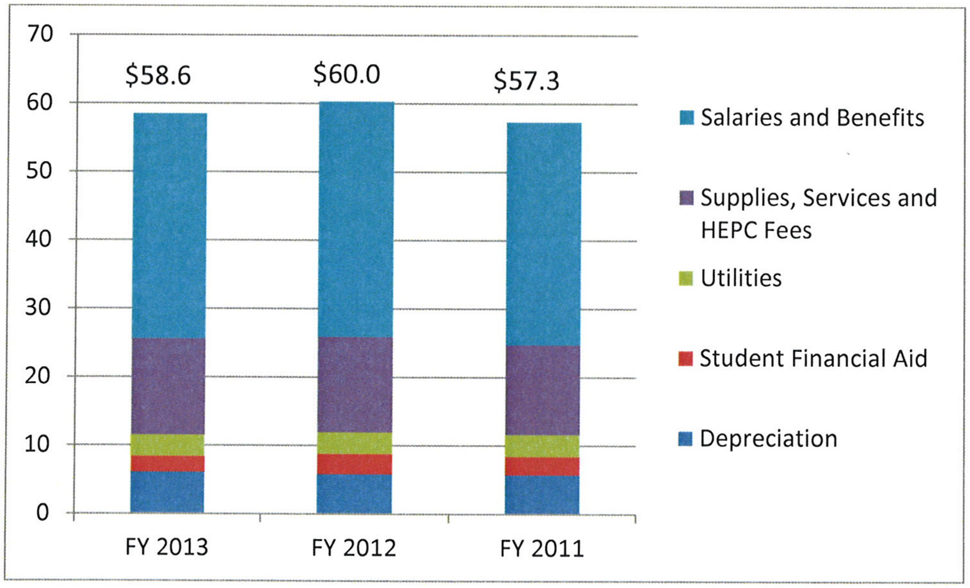


Operating Revenues:

- Total operating revenues for fiscal year 2013 increased approximately $1.1 million, or 2.6 percent year-over-year.
- During fiscal year 2013, Student Tuition and Fees increased approximately $1.1 million, or 6.9 percent due mainly to an increase in part-time hours taken and to a 4.2 percent in-state tuition increase and a 4.5 percent out-of-state tuition increase.
- Auxiliary Enterprises experienced a slight increase of $75,000 which indicates that the operations were able to sustain the drop in enrollment during the year and still manage to generate an equivalent revenue stream to fiscal year 2012.

Operating Expenses – FY 2013-2011

(In millions)



Operating Expenses:

- Operating expenses decreased approximately $1.4 million, or 2.3 percent, in fiscal year 2013.
- Salaries and wages increased approximately $0.6 million, or 2.3 percent, during the period. These increases were due mainly to a mid-year base salary adjustment and new faculty.
- Benefits decreased $2.1 million due mainly to the reduction of OPEB expense recorded in fiscal year 2013.

Non-operating Revenues (Expenses)

- State appropriations were consistent with fiscal year 2012. Non-operating revenue also reflects a decrease in Pell funding received by Shepherd students of approximately $279,000.
- Capital and Bond Proceeds from Commission increased approximately $1.5 million during the period, reflecting the remaining bond funds for Center for Contemporary Arts II construction.
- The University received a Federal Capital Grant for $1.7 million to assist with the completion of the Route 480 Underpass project.

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 non-operating, non-investing, and non-capital 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 Position.

Condensed Consolidated Schedules of Cash Flows

(In thousands)

	FY 2013	FY 2012	FY 2011
Net cash (used in) provided by:			
Operating activities	$ (9,903)	$ (8,334)	$ (8,695)
Noncapital financing activities	17,728	18,092	17,398
Capital and related financing activities	(12,047)	(7,840)	(7,626)
Investing activities	56	41	63
Increase (decrease) in Cash	(4,166)	1,959	1,140
Cash and cash equivalents - beginning of year	20,846	18,887	17,747
Cash and cash equivalents - end of year	$ 16,680	$ 20,846	$ 18,887

Economic Outlook

New federal financial aid requirements for fiscal year 2012 increased the standards for students to be satisfactorily making academic progress as well as regularly attending their classes. As such, the number of students eligible to continue receiving financial aid did decrease and affect enrollment beginning in fiscal year 2013 and is expected to continue to be a challenge. Shepherd University's state appropriation was reduced by 8.9 percent for fiscal year 2014. The Governor announced during summer 2013 that all state agencies should anticipate an additional permanent budget reductions of at least 7.5 percent for fiscal year 2015. Although Shepherd's reliance upon state funding is among the lowest in the state, this reduction will cause us to continue to examine resources and reallocate as necessary; however, the 2015 reduction is anticipated to be less than the 2014 reduction. The investment Shepherd made in opening the Martinsburg Center during summer 2013 will focus on the adult learner and will attract new markets and increase enrollment going forward which is critical at a time when institutions are being required to replace state funding while keeping tuition affordable for their students.

SHEPHERD UNIVERSITY

COMBINED STATEMENTS OF NET POSITION
AS OF JUNE 30, 2013 AND 2012

ASSETS AND DEFERRED OUTFLOWS	2013	2012 As Amended See Note 2
CURRENT ASSETS:		
Cash and cash equivalents	$ 16,680,294	$ 20,845,678
Due from the Commission	-	780,614
Due from other State agencies	-	136,079
Accounts receivable - net	670,653	639,941
Prepaid expense	67,017	-
Loans to students - current portion	100,091	80,560
Inventories	408,251	608,265
Total current assets	17,926,306	23,091,137
NONCURRENT ASSETS:		
Cash and cash equivalents	9,880	1,109
Investments	397,835	402,059
Loans to students - net of allowance of $362,637 and $330,458 in 2013 and 2012, respectively	326,110	420,156
Capital assets - net	137,135,144	124,345,510
Total noncurrent assets	137,868,969	125,168,834
TOTAL ASSETS	155,795,275	148,259,971
DEFERRED OUTFLOWS OF RESOURCES	-	-
TOTAL	$ 155,795,275	$ 148,259,971

(Continued)

SHEPHERD UNIVERSITY

COMBINED STATEMENTS OF NET POSITION
AS OF JUNE 30, 2013 AND 2012

LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	2013	2012 As Amended See Note 2
CURRENT LIABILITIES:		
Accounts payable	$ 3,985,006	$ 3,595,489
Accrued liabilities	2,379,168	2,217,598
Due to other State agencies	-	5,683
Compensated absences — current portion	795,001	671,293
Unearned revenues	567,283	2,570,141
Deposits held in custody for others	194,282	234,192
Bonds payable — current portion	1,245,000	1,205,000
Capital lease obligations — current portion	83,739	81,429
Total current liabilities	9,249,479	10,580,825
NONCURRENT LIABILITIES:		
Advances from federal sponsors	559,248	576,379
Compensated absences	652,220	427,142
Other postemployment benefits liability	9,430,969	9,226,982
Bonds payable	43,884,542	45,216,976
Capital lease obligations	57,141	140,880
Total noncurrent liabilities	54,584,120	55,588,359
Total liabilities	63,833,599	66,169,184
DEFERRED INFLOWS OF RESOURCES	-	-
TOTAL	63,833,599	66,169,184
NET POSITION:		
Net Investment in capital assets	91,864,722	77,701,224
Restricted for — expendable:		
Loans	103,635	105,747
Debt service	387,021	382,244
Other restricted	86,720	79,299
Total expendable	577,376	567,290
Unrestricted	(480,422)	3,822,273
Total net position	91,961,676	82,090,787
TOTAL	$ 155,795,275	$ 148,259,971

See notes to combined financial statements.

(Concluded)

SHEPHERD UNIVERSITY FOUNDATION, INCORPORATED
A COMPONENT UNIT OF SHEPHERD UNIVERSITY
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
Cash and cash equivalents	$ 1,920,569	$ 2,403,460
Pledges receivable (net of present value adjustment)	189,563	343,878
Contributions receivable	-	1,000
Accrued interest receivable	43,101	51,094
Prepaid expenses	3,319	3,319
Investments	23,754,127	22,577,979
Interest in life estate	287,234	-
Equipment, net	3,136	3,540
Total Assets	$ 26,201,049	$ 25,384,270
LIABILITIES		
Accounts payable	$ 555	$ 420
Accrued payroll	5,975	5,695
Custodial liabilities	2,772,324	3,157,153
Gift annuities payable	168,279	177,851
Total Liabilities	$ 2,947,133	$ 3,341,119
NET ASSETS		
Unrestricted	$ (3,016,065)	$ (3,033,428)
Temporarily restricted	3,001,964	3,004,599
Permanently restricted	23,268,017	22,071,980
Total Net Assets	$ 23,253,916	$ 22,043,151
Total Liabilities and Net Assets	$ 26,201,049	$ 25,384,270

See notes to combined financial statements.

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SHEPHERD UNIVERSITY

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012 As Amended See Note 2
OPERATING REVENUES		
Student tuition and fees - net of scholarship allowance of $10,914,341 and $10,388,862 in 2013 and 2012, respectively	$ 17,822,290	$ 16,673,403
Contracts and grants:		
Federal	1,054,868	1,310,665
State	4,743,946	4,299,326
Private	84,413	111,536
Interest on student loans receivable	14,366	11,104
Sales and services of educational activities	41,764	56,974
Auxiliary enterprise revenue - net of scholarship allowance of $504,072 and $343,307 in 2013 and 2012, respectively	18,301,023	18,386,995
Other operating revenues	758,448	880,684
Total operating revenues	42,821,118	41,730,687
OPERATING EXPENSES:		
Salaries and wages	26,729,917	26,079,673
Benefits	6,192,755	8,279,396
Supplies and other services	13,827,263	13,747,408
Utilities	3,146,187	3,070,084
Student financial aid - scholarships and fellowships	2,341,116	2,691,849
Depreciation	6,061,969	5,787,432
Fees assessed by the Commission for operations	309,521	302,984
Total operating expenses	58,608,728	59,958,826
OPERATING LOSS	(15,787,610)	(18,228,139)

(Continued)

SHEPHERD UNIVERSITY

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012 As Amended See Note 2
NONOPERATING REVENUES (EXPENSES):		
State appropriations	$ 11,228,474	$ 11,202,798
Federal Pell grants	5,678,573	5,957,223
Investment income	50,556	48,089
Interest on indebtedness	(2,115,135)	(2,256,174)
Fees assessed by the Commission for debt service	(37,820)	(72,010)
Gifts	795,052	932,693
Loss on disposal of equipment	(46,616)	(41,674)
Other	1,674	1,238
Total nonoperating revenues	15,554,758	15,772,183
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	(232,852)	(2,455,956)
CAPITAL AND BOND PROCEEDS FROM COMMISSION	6,112,250	4,679,184
CAPITAL AND BOND PROCEEDS FROM THE STATE	2,027,162	394,384
PRIVATE CAPITAL GRANTS	1,964,329	161,491
INCREASE IN NET POSITION	9,870,889	2,779,103
NET POSITION - Beginning of year (As Amended)	82,090,787	79,311,684
NET POSITION - End of year	$ 91,961,676	$ 82,090,787

See notes to combined financial statements.

(Concluded)

SHEPHERD UNIVERSITY

SHEPHERD UNIVERSITY FOUNDATION, INCORPORATED
A COMPONENT UNIT OF SHEPHERD UNIVERSITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT				
Cash contributions	$ -	$ 802,335	$ 869,799	$ 1,672,134
Stock contributions	-	2,508	-	2,508
Other non-cash contributions	-	9,973	287,234	297,207
Other revenue	23,383	20,224	-	43,607
Interest and dividends	-	517,956	15,216	533,172
Net realized and unrealized gains on investments	602,556	16,037	-	618,593
Transfers	34,343	(58,131)	23,788	
Net assets released from restrictions	1,313,537	(1,313,537)	-	-
Total Revenue and Other Support	1,973,819	(2,635)	1,196,037	3,167,221
EXPENSES				
Program services:				
Scholarships and awards	1,226,073	-	-	1,226,073
College support	87,464	-	-	87,464
General and administrative:				-
Salaries	296,897	-	-	296,897
Investment management fees	142,031	-	-	142,031
Real estate investment expenses	19,858	-	-	19,858
Printing and reproduction costs	38,584	-	-	38,584
Payroll taxes and benefits	48,444	-	-	48,444
Depreciation	5,323	-	-	5,323
Administrative expense	1,771	-	-	1,771
Rent	13,100	-	-	13,100
Office supplies and postage	6,211	-	-	6,211
Insurance	5,106	-	-	5,106
Changes in gift annuities	12,286	-	-	12,286
Professional fees	23,264	-	-	23,264
Staff development	3,122	-	-	3,122
Development	23,844	-	-	23,844
Telephone	2,343	-	-	2,343
Technology	297	-	-	297
Miscellaneous	438	-	-	438
Total Expenses	1,956,456	-	-	1,956,456
INCREASE (DECREASE) IN NET ASSETS	17,363	(2,635)	1,196,037	1,210,765
NET ASSETS - Beginning of year	(3,033,428)	3,004,599	22,071,980	22,043,151
NET ASSETS - End of year	$ (3,016,065)	$ 3,001,964	$ 23,268,017	$ 23,253,916

See notes to combined financial statements.

SHEPHERD UNIVERSITY

SHEPHERD UNIVERSITY FOUNDATION, INCORPORATED
A COMPONENT UNIT OF SHEPHERD UNIVERSITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT				
Cash contributions	$ -	$ 782,176	$ 857,208	$ 1,639,384
Stock contributions	-	3,040	606,204	609,244
Other non-cash contributions	-	18,391	25,000	43,391
Other revenue	25,626	12,623	-	38,249
Interest and dividends	-	584,013	18,174	602,187
Net realized and unrealized gains on investments	(675,961)	32,166	-	(643,795)
Transfers	(57,550)	70,596	(13,046)	-
Net assets released from restrictions	2,418,895	(2,418,895)	-	-
Total Revenue and Other Support	1,711,010	(915,890)	1,493,540	2,288,660
EXPENSES				
Program services:				
Scholarships and awards	2,299,436	-	-	2,299,436
College support	171,267	-	-	171,267
General and administrative:				-
Salaries	281,911	-	-	281,911
Investment management fees	150,247	-	-	150,247
Printing and reproduction costs	28,393	-	-	28,393
Payroll taxes and benefits	46,007	-	-	46,007
Pledges written-off	100,100	-	-	100,100
Depreciation	5,438	-	-	5,438
Administrative expense	2,446	-	-	2,446
Rent	14,277	-	-	14,277
Office supplies and postage	6,598	-	-	6,598
Insurance	5,297	-	-	5,297
Changes in gift annuities	12,960	-	-	12,960
Professional fees	21,329	-	-	21,329
Staff development	548	-	-	548
Development	28,059	-	-	28,059
Telephone	3,140	-	-	3,140
Technology	276	-	-	276
Miscellaneous	346	-	-	346
Total Expenses	3,178,075.00	-	-	3,178,075.00
INCREASE (DECREASE) IN NET ASSETS	(1,467,065)	(915,890)	1,493,540	(889,415)
NET ASSETS - Beginning of year	(1,566,363)	3,920,489	20,578,440	22,932,566
NET ASSETS - End of year	$ (3,033,428)	$ 3,004,599	$ 22,071,980	$ 22,043,151

See notes to combined financial statements.

SHEPHERD UNIVERSITY

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	$ 17,606,690	$ 16,831,661
Contracts and grants	5,005,392	6,773,964
Payments to and on behalf of employees	(32,208,329)	(31,435,290)
Payments to suppliers	(13,632,515)	(13,856,220)
Payments to utilities	(3,208,800)	(3,071,429)
Payments for scholarships and fellowships	(2,341,116)	(2,691,849)
Loans issued to students	(61,554)	(56,089)
Collection of loans to students	150,435	120,017
Sales and service of educational activities	41,764	56,974
Auxiliary enterprise charges	18,295,969	18,416,244
Fees assessed by the Commission	(309,521)	(302,984)
Other receipts — net	758,448	880,684
Net cash used in operating activities	(9,903,137)	(8,334,317)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	11,228,474	11,202,798
Federal Pell grants	5,678,573	5,957,223
Gifts	795,052	932,693
Federal student loan program — direct lending receipts	21,405,319	22,372,988
Federal student loan program — direct lending payments	(21,378,739)	(22,372,988)
Net cash provided by noncapital financing activities	17,728,679	18,092,714
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Private capital grants received	1,964,329	161,491
Capital and bond proceeds from the Commission	8,139,412	3,972,057
Capital and bond proceeds from the State	-	558,403
Interest paid on capital debt and leases	(2,132,569)	(2,278,791)
Purchases of capital assets	(18,615,532)	(8,819,167)
Principal paid on capital debt and leases	(1,356,429)	(1,435,709)
Withdrawals from (deposits to) noncurrent cash and cash equivalents	(8,771)	73,406
Fees assessed by the Commission	(37,820)	(72,010)
Net cash used in capital financing activities	(12,047,380)	(7,840,320)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales (purchases) of investments	4,224	(8,645)
Interest on investments	52,230	49,327
Net cash provided by investing activities	56,454	40,682
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,165,384)	1,958,759
CASH AND CASH EQUIVALENTS — Beginning of year	20,845,678	18,886,919
CASH AND CASH EQUIVALENTS — End of year	$ 16,680,294	$ 20,845,678

(Continued)

SHEPHERD UNIVERSITY

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (15,787,610)	$ (18,228,139)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	6,061,969	5,787,432
Changes in assets and liabilities:		
Accounts receivables — net	(57,292)	282,480
Prepaid expense	(67,017)	-
Loans to students — net	74,515	52,824
Due from the Commission	780,614	1,131
Due from other State agencies	136,079	150,752
Inventories	200,014	(186,575)
Accounts payable	106,830	84,370
Accrued liabilities	161,570	217,964
Compensated absences	348,786	(10,066)
Other postemployment benefits liability	203,987	2,715,881
Due to other State agencies	(5,683)	(7,951)
Deferred revenue	(2,002,858)	791,697
Deposits held in custody for others	(39,910)	29,249
Advances from federal sponsors	(17,131)	(15,366)
NET CASH USED IN OPERATING ACTIVITIES	$ (9,903,137)	$ (8,334,317)
NONCASH TRANSACTIONS — Property additions in accounts payable	$ 282,687	$ 2,353,849

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 position, revenues, expenses, changes in net position, and cash flows.

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, 2013 and 2012, 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 20).

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. The University's net position is classified into four categories according to external donor restrictions or availability of assets for satisfaction of the University's obligations. The University's components of net position are classified as follows:

Net Investment in Capital Assets — 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 net investment in capital assets.

Restricted — 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 — 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 component of net position at June 30, 2013 or 2012.

Unrestricted — This 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 position, 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 multi-participant variable net asset funds to reduce risk and offer investment liquidity diversification to the fund participants. Funds not required to meet immediate disbursement needs are invested for longer periods. A more detailed discussion of the BTI's investment operations pool can be found in its annual audited financial 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 collectability 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, cash equivalents, 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 components of net position, are classified as noncurrent assets in the accompanying combined statements of net position.

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.

Investments are made in accordance with and subject to the provisions of the Uniform Prudent Investor Act codified as article six-c, chapter forty-four of the West Virginia Code.

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. 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.

Unearned Revenue — Revenues for programs or activities to be conducted primarily in the next fiscal year are classified as unearned revenue, including items such as tuition, football ticket sales, orientation fees, room, and board. Financial aid and other deposits are separately classified as deposits.

Deferred Outflows of Resources — Consumption of net position by the University that is applicable to a future fiscal year is reported as a deferred outflow on the statement of net position.

Deferred Inflows of Resources — An acquisition of net position by the University that is applicable to a future fiscal year is reported as a deferred inflow of resources on the statement of net position.

Compensated Absences and Other Postemployment Benefits (OPEBs) — 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 and its stand-alone financial statements 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. Employees hired after July 1, 2010 receive no health insurance premium subsidy from the University. Two groups of employees hired after July 1, 2010 will not be required to pay the unsubsidized rate: 1) active employees who were originally hired before

July 1, 2010, who have a break in service of fewer than two years after July 1, 2010; and 2) retired employees who retired before July 1, 2010, return to active service after July 1, 2010, and then go back into retirement. In those cases, the original hire date will apply.

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 position.

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, federal Pell grants, and investment income, and sale of capital assets (including natural resources).

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

Use of Restricted Components of Net Position — 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 resources are available. Generally, the University attempts to utilize restricted resources 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 position, as the loans are repayable directly to the U.S. Department of Education. In 2013 and 2012, the University received and disbursed approximately $21,379,000 and $22,373,000, 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 position.

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, College Work Study programs Grant, and Academic Competitiveness Grant. The activity of these programs is recorded in the accompanying combined financial statements. In 2013 and 2012, the University received and disbursed $5,861,686 and $6,164,774, 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 position. 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.

Reclassifications — Certain reclassifications have been made to the prior year presentation to conform to the current year presentation.

Newly Adopted Statements Issued by the Governmental Accounting Standards Board — The University has adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this statement is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in the statement of financial position and related disclosures. The adoption of this statement did not have a material impact on the financial statements.

The University has early adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. See "Early Adoption of GASB No 65" section below for further description of the amendments.

The University has early adopted Statement No. 66, *Technical Corrections — 2012: An Amendment of GASB Statements No. 10 and No. 64.* This statement improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November, 1989 FASB and AICPA Pronouncements.* The adoption of this statement did not have a material impact on the financial statements.

Recent Statements Issued by the Governmental Accounting Standards Board — The GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for fiscal years beginning after June 15, 2014.This statement enhances the information provided in the financial statements regarding the effects of pension-related transactions, the pension obligations of the entity, and the resources available to satisfy those obligations. The University has not yet determined the effect that the adoption of GASB Statement No. 68 may have on its combined financial statements.

The GASB has also issued Statement No. 69,*Government Combinations and Disposals of Government Operations,* effective for fiscal years beginning after December 31, 2013. This statement provides guidance on measurement and reporting of combinations and disposals of government operations. The University has not yet determined the effect that the adoption of GASB Statement No. 69 may have on its financial statements.

The GASB also issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for fiscal years beginning after June 15, 2013. Early application is encouraged. This statement requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. In addition, the Statement requires: (1) A government guarantor to consider qualitative factors when determining if a payment on its guarantee is more likely than not to be required. Such factors may include whether the issuer of the guaranteed obligation is experiencing significant financial difficulty or initiating the process of entering into bankruptcy or financial reorganization;

(2) An issuer government that is required to repay a guarantor for guarantee payments made to continue to report a liability unless legally released. When a government is released, the government would recognize revenue as a result of being relieved of the obligation; (3) A government guarantor or issuer to disclose information about the amounts and nature of nonexchange financial guarantees. The University has not yet determined the effect that the adoption of GASB Statement No. 70 may have on its financial statements.

Early Adoption of GASB No 65 —

As required with the adoption of GASB Statement No. 65 as discussed above, the University's financial statements have been amended from the amounts previously reported as described below. Such changes relate to reclassifying bond issuance costs previously recorded as other assets to other nonoperating expenses in the amount of $819,734. The cumulative effect on the net position as of the earliest period presented was $857,006.

	As Previously Reported	Statement of Net Position Effect	Statement of Revenues, Expenses and Changes in Net Position Effect	As Amended
Noncurrent Assets	$ 125,988,568	$ (819,734)	$ -	$ 125,168,834
Net Investment in Capital Assets	78,520,958	(819,734)	-	77,701,224
Nonoperating Revenues (Expenses)	15,734,911	-	37,272	15,772,183
Loss before Other Revenues, Expenses, Gains or Losses	(2,493,228)	-	37,272	(2,455,956)
Increase in Net Position	2,741,831	-	37,272	2,779,103
Net Position - Beginning of Year	80,168,690	(857,006)		79,311,684
Net Position - End of Year	82,910,521	(819,734)	-	82,090,787

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents as of June 30, 2013 and 2012 was as follows:

	2013		
	Current	Noncurrent	Total
State Treasurer	$15,863,730	$ -	$15,863,730
Trustee Bank	-	9,880	9,880
Bank	816,564	-	816,564
	$16,680,294	$ 9,880	$16,690,174

	2012		
	Current	Noncurrent	Total
State Treasurer	$20,295,800	$ -	$20,295,800
Trustee Bank	-	1,109	1,109
Bank	549,878	-	549,878
	$20,845,678	$ 1,109	$20,846,787

Cash and cash equivalents with the State Treasurer included $137,107 in 2013 and $1,477 in 2012 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, 2013 and 2012, was $9,880 and $1,109, respectively, and was invested in U.S. Treasury money market funds. The combined carrying amount of cash in the bank at June 30, 2013 and 2012, was $816,564 and $549,878, respectively, as compared with the combined bank balance of $877,546 and $605,536, respectively. The difference is primarily caused by items in transit. The bank balances were covered by federal depository insurance as noted below or were collateralized by securities held by the State's agent. Regarding federal depository insurance, accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. As of June 30, 2013, $166,191 of the University's bank balance of $877,546 was exposed to custodial credit risk.

Amounts with the State Treasurer as of June 30, 2013 and 2012, were 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 invests, all are subject to credit risk. The following BTI investment risk information has been extracted from the notes to the BTI's financial statements.

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, 2013 and 2012, 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 P-1 by Moody's. The pool must have at least 15% of its assets in U.S. Treasury issues.

At June 30, 2013 and 2012, the WV Money Market Pool investments had a total carrying value of $2,495,868,000 and $2,786,968,000, respectively, of which the University's ownership represents 0.59% and 0.64%, respectively.

WV Government Money Market Pool — Credit Risk — For the years ended June 30, 2013 and 2012, the WV Government 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 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, 2013 and 2012, the WV Government Money Market Pool investments had a total carrying value of $287,184,000 and $299,629,000, of which the University's ownership represents 0.04% and 0.04%, 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 P-1 by Moody's. Mortgage-backed and asset-backed securities must be rated AAA by Standard & Poor's and Aaa by Moody's. As this pool has not been rated, the following table provides information on the credit ratings of the WV Short Term Bond Pool's investments (in thousands):

	Credit Rating*		2013		2012	
Security Type	**Moody's**	**S&P**	**Carrying Value**	**Percent of Pool Assets**	**Carrying Value**	**Percent of Pool Assets**
Corporate asset-backed securities	Aaa	AAA	$ 53,681	8.72 %	$ 95,628	18.99 %
	Aaa	NR *	59,810	9.71	38,524	7.64
	B1	CCC **			896	0.18
	B3	BB **			311	0.06
	B3	BBB- **			53	0.01
	B3	CCC **			280	0.06
	Ca	CCC **	308	0.05	586	0.12
	Ca	D **	95	0.02		
	Caa1	CCC **	932	0.15		
	Caa2	CCC **			186	0.04
	Caa3	CCC **			243	0.05
	Caa3	D **	367	0.06	26	0.01
	Caa3	NR **	24	0.00		
	NR	AAA	37,411	6.07		
	NR	AA+	2,514	0.41	3,900	0.77
	NR *	NR *	3,819	0.62	3,786	0.75
			158,961	25.81	144,419	28.68
Corporate bonds and notes	Aa2	AA+	3,002	0.49	9,025	1.79
	Aa2	AA	12,731	2.07		
	Aa2	AA-	9,192	1.49		
	Aa3	AA-	33,034	5.36	15,666	3.11
	Aa3	A+	11,693	1.90		
	Aa3	A			23,032	4.57
	A1	AA+	13,295	2.16		
	A1	AA	4,118	0.67	12,145	2.41
	A1	A+	47,500	7.71	30,684	6.09
	A1	A	13,522	2.19		
	A2	A+	9,348	1.52		
	A2	A	47,709	7.75	39,064	7.76
	A2	A-	5,052	0.82		
	A3	A-	7,986	1.30	7,755	1.54
	A3	BBB+			3,006	0.60
	Baa1	A- **	2,416	0.39	4,162	0.83
	Baa2	A- **	6,959	1.13	6,709	1.33
			227,557	36.95	151,248	30.03
U.S. agency bonds	Aaa	AA+	9,986	1.62	45,024	8.94
U.S. Treasury notes***	Aaa	AA+	140,154	22.76	44,251	8.79
U.S. agency mortgage backed securities****	Aaa	AA+	73,692	11.97	77,065	15.30
Money market funds	Aaa	AAAm	5,457	0.89	41,610	8.26
			$615,807	100 %	$503,617	100 %

* NR = Not Rated

** The securities were not in compliance with BTI Investment Policy at June 30, 2013 and/or 2012. 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 explicitly guaranteed by the United States government and are not subject to credit risk.

At June 30, 2013 and 2012, the University's ownership represents 0.18% and 0.47%, 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, except for government floating rate notes, which can be up to 762 days. The following table provides information on the weighted average maturities for the various asset types in the WV Money Market Pool:

	2013		2012	
Security Type	**Carrying Value (in Thousands)**	**WAM (Days)**	**Carrying Value (in Thousands)**	**WAM (Days)**
Repurchase agreements	$ 229,326	3	$ 90,204	3
U.S. Treasury notes	279,755	132	330,865	122
U.S. Treasury bills	34,993	77	237,978	37
Commercial paper	970,395	43	853,470	35
Certificates of deposit	259,000	66	110,000	10
U.S. agency discount notes	445,784	47	738,706	44
Corporate bonds and notes	10,000	60	36,000	48
U.S. agency bonds/notes	66,603	139	189,691	68
Money market funds	200,012	1	200,054	1
	$2,495,868	52	$2,786,968	46

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, except for government floating rate notes, which can be up to 762 days. The following table provides information on the weighted average maturities for the various asset types in the WV Government Money Market Pool:

	2013		2012	
Security Type	**Carrying Value (in Thousands)**	**WAM (Days)**	**Carrying Value (in Thousands)**	**WAM (Days)**
Repurchase agreements	$ 101,500	3	$ 91,900	3
U.S. Treasury notes	50,112	103	103,324	111
U.S. Treasury bills	4,999	76	4,999	62
U.S. agency discount notes	125,474	67	76,397	52
U.S. agency bonds/notes	5,000	34	23,004	9
Money market funds	99	1	5	1
	$ 287,184	50	$ 299,629	54

The overall effective duration of the investments of the WV Short Term Bond Pool cannot exceed 731 days. Maximum effective duration 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:

	2013		2012	
Security Type	**Carrying Value (in Thousands)**	**Effective Duration (Days)**	**Carrying Value (in Thousands)**	**Effective Duration (Days)**
U. S. Treasury bonds/notes	$ 140,154	491	$ 44,251	366
Corporate bonds/notes	227,557	293	151,248	242
Corporate asset-backed securities	158,961	471	144,419	250
U.S. agency bonds/notes	9,986	583	45,024	23
U.S. agency mortgage-backed securities	73,692	60	77,065	13
Money market funds	5,457	1	41,610	1
	$ 615,807	358	$ 503,617	180

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 a pool managed by the securities lending agent. 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 are held with the Trustee Bank and are restricted by the bond indentures and invested in mortgage-backed securities which had carrying values of $397,835 and $402,059 for the years ended June 30, 2013 and 2012, respectively. 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.

5. ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2013 and 2012, are as follows:

	2013	2012
Student tuition and fees — net of allowance for doubtful accounts of $388,257 and $369,339 in 2013 and 2012, respectively	$ 436,028	$ 292,096
Accrued interest receivable — the Commission	-	333
Grants and contracts receivable	234,625	347,512
	$ 670,653	$ 639,941

6. CAPITAL ASSETS

Summary of capital assets transactions for the University as of June 30, 2013 and 2012, are as follows:

	2013			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 1,120,925	$ -	$ -	$ 1,120,925
Construction in progress	8,868,416	16,192,453	20,785,046	4,275,823
Total capital assets not being depreciated	$ 9,989,341	$ 16,192,453	$ 20,785,046	$ 5,396,748
Other capital assets:				
Land improvements	$ 1,874,130	$ 120,880	$ -	$ 1,995,010
Land improvement - leased	825,416	-	-	825,416
Infrastructure	9,112,675	5,217,198	-	14,329,873
Buildings	147,843,887	15,455,555	-	163,299,442
Equipment	10,704,882	2,605,167	946,425	12,363,624
Library books	3,898,924	96,283	52,166	3,943,041
Total other capital assets	174,259,914	23,495,083	998,591	196,756,406
Less accumulated depreciation for:				
Land improvements	540,775	129,330	-	670,105
Land improvement - leased	238,453	55,028	-	293,481
Infrastructure	4,146,701	623,140	-	4,769,841
Buildings	44,822,510	3,985,770	-	48,808,280
Equipment	6,891,803	1,134,225	895,538	7,130,490
Library books	3,263,503	134,476	52,166	3,345,813
Total accumulated depreciation	59,903,745	6,061,969	947,704	65,018,010
Other capital assets — net	$ 114,356,169	$ 17,433,114	$ 50,887	$ 131,738,396
Capital assets:				
Capital assets not being depreciated	$ 9,989,341	$ 16,192,453	$ 20,785,046	$ 5,396,748
Other capital assets	174,259,914	23,495,083	998,591	196,756,406
Total cost of capital assets	184,249,255	39,687,536	21,783,637	202,153,154
Less accumulated depreciation	59,903,745	6,061,969	947,704	65,018,010
Capital assets — net	$ 124,345,510	$ 33,625,567	$ 20,835,933	$ 137,135,144

	2012			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 1,120,925	$ -	$ -	$ 1,120,925
Construction in progress	3,593,959	7,086,820	1,812,363	8,868,416
Total capital assets not being depreciated	$ 4,714,884	$ 7,086,820	$ 1,812,363	$ 9,989,341
Other capital assets:				
Land improvements	$ 1,718,050	$ 156,080	$ -	$ 1,874,130
Land improvement - leased	825,416	-	-	825,416
Infrastructure	9,112,675	-	-	9,112,675
Buildings	144,147,211	3,696,676	-	147,843,887
Equipment	10,146,627	855,457	297,202	10,704,882
Library books	4,157,522	106,397	364,995	3,898,924
Total other capital assets	170,107,501	4,814,610	662,197	174,259,914
Less accumulated depreciation for:				
Land improvements	418,594	122,181	-	540,775
Land improvement - leased	183,425	55,028	-	238,453
Infrastructure	3,573,972	572,729	-	4,146,701
Buildings	40,979,230	3,843,280	-	44,822,510
Equipment	6,097,676	1,049,655	255,528	6,891,803
Library books	3,483,939	144,559	364,995	3,263,503
Total accumulated depreciation	54,736,836	5,787,432	620,523	59,903,745
Other capital assets — net	$ 115,370,665	$ (972,822)	$ 41,674	$ 114,356,169
Capital assets:				
Capital assets not being depreciated	$ 4,714,884	$ 7,086,820	$ 1,812,363	$ 9,989,341
Other capital assets	170,107,501	4,814,610	662,197	174,259,914
Total cost of capital assets	174,822,385	11,901,430	2,474,560	184,249,255
Less accumulated depreciation	54,736,836	5,787,432	620,523	59,903,745
Capital assets — net	$ 120,085,549	$ 6,113,998	$ 1,854,037	$ 124,345,510

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

The University has been approved to receive $1,150,000 of Education, Arts, Science, and Tourism (EAST) bond proceeds issued by the West Virginia Development Office during August 2010. Through the year ended June 30, 2013, total proceeds of $1,123,753 have been received by the University under this bond issuance. The West Virginia Development Office is responsible for repayment of the debt.

At June 30, 2013, the University had approximately $2,600,000 of outstanding contractual commitments for property, plant, and equipment.

7. LEASES

Future annual lease payments on capital leases for years subsequent to June 30, 2013, are as follows:

Years Ending June 30	Principal	Interest	Total
2014	$ 83,739	$ 2,875	$ 86,614
2015	57,141	602	57,743
Total	$ 140,880	$ 3,477	$ 144,357

The net book value of capital assets held under the capital lease as of June 30, 2013 and 2012, was $531,935 and $586,963, respectively.

8. LONG-TERM LIABILITIES

Summary of long-term obligation transactions for the University for the years ended June 30, 2013 and 2012, are as follows:

	2013				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and capital leases:					
Bonds payable	$ 46,421,976	$ -	$ 1,292,434	$ 45,129,542	$ 1,245,000
Capital lease obligations	222,309	-	81,429	140,880	83,739
Total bonds and capital leases	46,644,285	-	1,373,863	45,270,422	1,328,739
Other long-term liabilities:					
Advances from federal sponsors	576,379	-	17,131	559,248	-
Compensated absences	1,098,435	348,786	-	1,447,221	795,001
Other postemployment benefits liability	9,226,982	203,987	-	9,430,969	-
Total other long-term liabilities	10,901,796	552,773	17,131	11,437,438	795,001
Total long-term liabilities	$ 57,546,081	$ 552,773	$ 1,390,994	$ 56,707,860	$ 2,123,740

	2012				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and capital leases:					
Bonds payable	$ 47,604,593	$ -	$ 1,182,617	$ 46,421,976	$ 1,205,000
Capital lease obligations	301,492	-	79,183	222,309	81,429
Total bonds and capital leases	47,906,085	-	1,261,800	46,644,285	1,286,429
Other long-term liabilities:					
Advances from federal sponsors	591,745	-	15,366	576,379	-
Compensated absences	1,108,501	-	10,066	1,098,435	671,293
Other postemployment benefits liability	6,511,101	2,715,881	-	9,226,982	-
Debt obligation due to Commission	196,526	-	196,526	-	-
Total other long-term liabilities	8,407,873	2,715,881	221,958	10,901,796	671,293
Total long-term liabilities	$ 56,313,958	$ 2,715,881	$ 1,483,758	$ 57,546,081	$ 1,957,722

9. BONDS PAYABLE

Bonds payable as of June 30, 2013 and 2012, consisted of the following:

	Interest Rate	Annual Principal Installment Due	Principal Amount Outstanding 2013	Principal Amount Outstanding 2012
Student Fee Revenue Bonds, due through 2033	4.1%–5.125%	$105,000–370,000	$ 4,860,000	$ 5,065,000
Infrastructure Revenue Bonds, due through 2024	3.4%–4.5%	$125,000–240,000	2,140,000	2,295,000
Residence Facilities Revenue Bonds, due through 2035	3.75%–5.0%	$435,000–1,450,000	20,090,000	20,605,000
Wellness Center Facilities Revenue Bonds, due through 2037	3.75%–5.0%	$435,000–1,170,000	17,545,000	17,945,000
			44,635,000	45,910,000
Discount			(128,692)	(132,969)
Premium			623,234	644,945
			$ 45,129,542	$ 46,421,976

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 $397,835 and $402,059 as of June 30, 2013 and 2012, respectively.

For both the years ended June 30, 2013 and 2012, 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, 2013 and 2012, 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, 2013 and 2012, 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, 2013 and 2012, 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, 2013 and 2012, 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 3.5% to 4.5%, 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 4.5% to 5.0% 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, 2013 and 2012, 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, 2013, are as follows:

Years Ending June 30	2003 Bonds Principal	2003 Bonds Interest	2004 Bonds Principal	2004 Bonds Interest
2014	$ 140,000	$ 245,338	$ 160,000	$ 90,475
2015	145,000	239,280	165,000	84,675
2016	150,000	232,825	170,000	78,075
2017	160,000	225,488	175,000	71,275
2018	165,000	217,363	185,000	64,275
2019–2023	975,000	947,763	1,045,000	198,175
2024–2028	1,240,000	666,222	240,000	10,800
2029–2033	1,585,000	306,347	-	-
2034	300,000	9,481	-	-
Total	$4,860,000	$3,090,107	$ 2,140,000	$597,750

Years Ending June 30	2005 Bonds Principal	2005 Bonds Interest	2007 Bonds Principal	2007 Bonds Interest
2014	$ 530,000	$ 992,375	$ 415,000	$ 807,362
2015	550,000	972,500	430,000	791,800
2016	575,000	950,500	450,000	770,300
2017	605,000	921,750	470,000	747,800
2018	635,000	891,500	490,000	729,000
2019–2023	3,680,000	3,948,750	2,845,000	3,251,750
2024–2028	4,690,000	2,932,500	3,580,000	2,518,625
2029–2033	5,990,000	1,636,000	4,480,000	1,621,062
2034	2,835,000	214,250	4,385,000	504,225
Total	$ 20,090,000	$ 13,460,125	$ 17,545,000	$ 11,741,924

Years Ending June 30	Total Principal	Total Interest
2014	$ 1,245,000	$ 2,135,550
2015	1,290,000	2,088,255
2016	1,345,000	2,031,700
2017	1,410,000	1,966,313
2018	1,475,000	1,902,138
2019–2023	8,545,000	8,346,438
2024–2028	9,750,000	6,128,147
2029–2033	12,055,000	3,563,409
2034	7,520,000	727,956
Total	$ 44,635,000	$ 28,889,906

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, 2013, 2012, and 2011 the noncurrent liability related to OPEB costs was $9,430,969, $9,226,982, and $6,511,101, respectively. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was $993,495 and $789,508, respectively, during 2013 or 79.5%. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was $3,448,972 and $733,091, respectively, during 2012, or 21.3%. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was $3,403,983 and $688,751, respectively, during 2011, or 20.2%. As of and for the years ended June 30, 2013, 2012, and 2011, there were 29, 36, and 35 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, 2013, the University has recognized all of the amount authorized. Additionally, the University received $0 from construction period interest proceeds.

During the year ended June 30, 2011, the State of West Virginia, through the Higher Education Policy Commission, issued $76.9 million of Higher Education revenue bonds to fund capital project at various higher education institutions in the State. The University has been approved to receive $11.8 million of these funds. State lottery funds will be used to repay the debt, although University revenues are pledged if lottery funds prove to be insufficient. As of June 30, 2013, the University has recognized all of the amount authorized.

Debt services assessed as of June 30, 2013 and 2012, are as follows:

	2013	2012
Principal	$ -	$ 196,525
Interest	-	7,861
Other	37,820	64,149
	$ 37,820	$ 268,535

12. UNRESTRICTED COMPONENTS OF NET POSITION

The University did not have any designated unrestricted components of net position as of June 30, 2013 or 2012.

	2013	2012
Total unrestricted net position before OPEB liability	$ 8,950,547	$ 13,049,255
Less OPEB liability	9,430,969	9,226,982
Total unrestricted component of net position	$ (480,422)	$ 3,822,273

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, 2013 and 2012, 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, 2013 and 2012. Required employee contributions were at the rate of 6% of total annual salary for the years ended June 30, 2013 and 2012. 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, 2013, 2012, and 2011, were $120,736, $126,618, and $129,622, respectively, which consisted of $82,653, $86,841, and $89,100 from the University in 2013, 2012, and 2011, respectively, and $38,083, $39,777, and $40,522, from the covered employees in 2013, 2012, and 2011, 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, 2013, 2012, and 2011, were $2,441,864, $2,398,366, and $2,294,276, respectively, which consisted of equal contributions from the University and covered employees in 2013, 2012, and 2011 of $1,220,932, $1,199,183, and $1,147,138, respectively.

Total contributions to the Great West for the years ended June 30, 2013, 2012, and 2011, were $123,420, $79,882, and $47,364, respectively, which consisted of equal contributions from the University and the covered employee in 2013, 2012, and 2011 of $61,710, $39,941, and $23,682, respectively.

The University's total payroll for the years ended June 30, 2013, 2012 and 2011, was $26,441,421, $25,891,978, and $24,446,284, respectively, and total covered employees' salaries in the STRS, TIAA-CREF, and Great West were $633,295, $20,348,897, and $1,028,499 in 2013, $662,955, $19,986,385, and $665,682 in 2012, and $675,370, $19,118,974, and $394,701 in 2011, 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, 2013 and 2012, the Foundation's net assets (including unrealized gains) totaled $23,253,916 and $22,043,151, 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, 2013 and 2012, the Foundation contributed $795,052 and $932,693, respectively, to the University for scholarships and awards.

15. AFFILIATED ORGANIZATION

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. COMMITMENTS AND CONTINGENCIES

The University executed an operating lease agreement for the Martinsburg Center campus at 261 Aikens Center, Martinsburg, West Virginia in 2013. The lease agreement includes scheduled rent increases over the term of the lease, which will be recognized on a straight-line basis over the term of the lease. The lease expires June 2023. Rental expense under operating leases was approximately $38,000 and $0 for the years ended June 30, 2013 and 2012, and are included in supplies and other services (Instruction) in the accompanying combined statements of revenues, expenses, and changes in net position.

Future minimum payments under noncancellable operating leases are as follows at June 30, 2013:

	Operating Leases	
2014	$ 229,260	
2015	229,260	
2016	229,260	
2017	229,260	
2018	229,260	
Thereafter	1,146,300	
Minimum lease payments		$ 2,292,600

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, 2013 or 2012.

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 position as of June 30, 2013 and 2012:

	Student Fee Revenue Bonds 2003		Infrastructure Revenue Bonds 2004		Residence Facilities Projects Revenue Bonds 2005		Wellness Center Revenue Bonds 2007	
	2013	2012 As Amended	2013	2012 As Amended	2013	2012 As Amended	2013	2012 As Amended
Assets:								
Current assets	$ 1,422,487	$ 1,302,806	$ 648,630	$ 559,161	$ 7,180,722	$ 8,742,789	$ 949,400	$ 950,752
Noncurrent assets	3,687,406	3,918,138	1,860,474	2,090,530	20,407,235	20,173,845	18,004,983	18,433,394
Total assets	5,109,893	5,220,944	2,509,104	2,649,691	27,587,957	28,916,634	18,954,383	19,384,146
Liabilities:								
Current liabilities	170,196	155,920	167,540	162,992	1,899,818	1,355,082	591,622	541,611
Noncurrent liabilities	4,753,359	4,895,859	1,979,590	2,139,590	20,233,920	20,875,825	17,020,478	17,435,478
Total liabilities	4,923,555	5,051,779	2,147,130	2,302,582	22,133,738	22,230,907	17,612,100	17,977,089
Net position:								
Net investment in capital assets	(1,616,163)	(1,515,885)	(279,117)	(204,061)	(440,426)	(1,298,410)	569,502	597,914
Restricted:								
Debt service	387,021	382,244	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-	-	-
Unrestricted	1,415,480	1,302,806	641,091	551,170	5,894,645	7,984,137	772,781	809,143
Total net position	186,338	169,165	361,974	347,109	5,454,219	6,685,727	1,342,283	1,407,057
Total net position and liabilities	$ 5,109,893	$ 5,220,944	$ 2,509,104	$ 2,649,691	$ 27,587,957	$ 28,916,634	$ 18,954,383	$ 19,384,146

Condensed statements of revenues, expenses, and changes in net position for the years ended June 30, 2013 and 2012:

	Student Fee Revenue Bonds 2003		Infrastructure Revenue Bonds 2004		Residence Facilities Projects Revenue Bonds 2005		Wellness Center Revenue Bonds 2007	
	2013	2012 As Amended	2013	2012 As Amended	2013	2012 As Amended	2013	2012 As Amended
Operating:								
Operating revenues	$ 483,458	$ 472,887	$ 340,387	$ 335,804	$ 16,459,599	$ 16,392,045	$ 2,504,054	$ 2,474,722
Operating expenses	(237,778)	(171,730)	(230,077)	(230,114)	(16,717,744)	(13,640,517)	(1,747,726)	(1,563,656)
Net operating income	245,680	301,157	110,310	105,690	(258,145)	2,751,528	756,328	911,066
Nonoperating:								
Nonoperating revenues	22,307	18,482	2	1	10,146	9,164	10	6
Nonoperating expenses	(250,814)	(323,249)	(95,447)	(105,853)	(983,509)	(992,628)	(821,112)	(849,622)
Net nonoperating loss	(228,507)	(304,767)	(95,445)	(105,852)	(973,363)	(983,464)	(821,102)	(849,616)
Increase (decrease) in net position	17,173	(3,610)	14,865	(162)	(1,231,508)	1,768,064	(64,774)	61,450
Net position — beginning of year	169,165	172,775	347,109	347,271	6,685,727	4,917,663	1,407,057	1,345,607
Net position — end of year	$ 186,338	$ 169,165	$ 361,974	$ 347,109	$ 5,454,219	$ 6,685,727	$ 1,342,283	$ 1,407,057

Condensed statements of cash flows for the years ended June 30, 2013 and 2012:

	Student Fee Revenue Bonds 2003		Infrastructure Revenue Bonds 2004		Residence Facilities Projects Revenue Bonds 2005		Wellness Center Revenue Bonds 2007	
	2013	2012 As Amended	2013	2012 As Amended	2013	2012 As Amended	2013	2012 As Amended
Net cash provided by operating activities	$ 453,247	$ 515,385	$ 338,973	$ 342,659	$ 1,206,857	$ 3,796,368	$ 1,240,659	$ 1,498,100
Net cash used in capital and related financing	(621,598)	(694,084)	(250,898)	(250,979)	(3,765,074)	(2,937,123)	(2,119,825)	(2,064,428)
Net cash provided by investing activities	250,814	323,249	-	-	1,021,808	1,044,726	821,112	836,479
Increase (decrease) in cash and cash equivalents	82,463	144,550	88,075	91,680	(1,536,409)	1,903,971	(58,054)	270,151
Cash and cash equivalents — beginning of year	1,340,024	1,195,474	559,609	467,929	7,943,669	6,039,698	1,002,361	732,210
Cash and cash equivalents — end of year	$ 1,422,487	$ 1,340,024	$ 647,684	$ 559,609	$ 6,407,260	$ 7,943,669	$ 944,307	$ 1,002,361

18. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2013 and 2012, the following represents operating expenses within both natural and functional classifications:

2013	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Fees Assessed by the Commission	Total
Instruction	$ 12,821,684	$ 2,594,549	$ 1,459,265	$ 280	$ -	$ -	$ -	$ 16,875,778
Research	4,458	1,516	125	-	-	-	-	6,099
Public service	156,224	32,266	121,851	437	-	-	-	310,778
Academic support	2,117,973	497,183	939,533	1,641	-	-	-	3,556,330
Student services	2,237,411	545,861	1,401,555	936	-	-	-	4,185,763
General institutional support	2,739,836	925,736	2,098,861	624	-	-	-	5,765,057
Operations and maintenance of plant	1,629,657	462,648	1,440,088	1,636,091	-	-	-	5,168,484
Student financial aid	-	-	-	-	2,341,116	-	-	2,341,116
Auxiliary enterprises	5,022,674	1,132,996	6,365,985	1,506,178	-	-	-	14,027,833
Depreciation	-	-	-	-	-	6,061,969	-	6,061,969
Other	-	-	-	-	-	-	309,521	309,521
Total	$ 26,729,917	$ 6,192,755	$ 13,827,263	$ 3,146,187	$ 2,341,116	$ 6,061,969	$ 309,521	$ 58,608,728

2012	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Fees Assessed by the Commission	Total
Instruction	$ 12,233,374	$ 3,552,205	$ 1,210,067	$ 322	$ -	$ -	$ -	$ 16,995,968
Research	1,564	367	-	-	-	-	-	1,931
Public service	156,382	44,736	116,415	486	-	-	-	318,019
Academic support	2,048,225	620,810	1,103,558	2,300	-	-	-	3,774,893
Student services	2,169,171	698,420	1,312,997	755	-	-	-	4,181,343
General institutional support	2,830,285	1,272,787	2,066,443	352	-	-	-	6,169,867
Operations and maintenance of plant	1,729,393	607,910	1,490,865	1,584,802	-	-	-	5,412,970
Student financial aid	-	-	-	-	2,691,849	-	-	2,691,849
Auxiliary enterprises	4,911,279	1,482,161	6,447,063	1,481,067	-	-	-	14,321,570
Depreciation	-	-	-	-	-	5,787,432	-	5,787,432
Other	-	-	-	-	-	-	302,984	302,984
Total	$ 26,079,673	$ 8,279,396	$ 13,747,408	$ 3,070,084	$ 2,691,849	$ 5,787,432	$ 302,984	$ 59,958,826

19. SUBSEQUENT EVENTS

On 8/19/2013, the University entered into a Master Lease Purchase Financing Agreement with Banc of America Public Capital for $1,000,000. The term of the agreement is seven years and includes an annual interest rate of 1.66632%. Proceeds from this transaction were used to fund the turf field as part of the soccer complex project that began in the summer of 2013.

In addition, the University is in the process of refunding one or both series 2003 and 2004B Revenue Bonds with principal balances of $4,930,000 and $2,140,000, respectively. The refunding should occur during October. The goal of the refunding is to recognize debt service cost savings and to streamline accounting practices. The Governor's office has approved the refunding with the condition that both issues must realize a 3% net present value savings. The University is working with its underwriter and bond counsel in this process and current interest rates and bond rating will play key factors in the total savings.

20. COMPONENT UNIT'S DISCLOSURES

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

SHEPHERD UNIVERSITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

Note 1. 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.

Note 1. Summary of Significant Accounting Policies (Continued)

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.

Pledges Receivable:
Pledges are recorded as revenue when received. It is the Foundation's policy to evaluate individual pledges annually to determine collectability. Pledges deemed uncollectible are written off as part of the change in net assets in the year such determination is made. The present value adjustment for pledges receivable is calculated by determining the present value of the future contributions expected to be received, using a discount rate of 6%.

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

Advertising:
Advertising costs are expensed as incurred and amounted to $2,409 and $1,650 for the years ended June 30, 2013 and 2012, respectively.

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.

Note 1. Summary of Significant Accounting Policies (Continued)

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. The guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on derecognition, classification, interest and penalties, accounting interim periods, disclosure and transition. As of June 30, 2013 and 2012, the Foundation had no uncertain tax positions that qualify for either recognition or disclosure in the Foundation's financial statements. The Foundation's policy is to recognize interest and penalties on unrecognized tax matters in income tax expense in the financial statements. Generally, the tax years before 2010 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.

Reclassifications:
Certain reclassifications of amounts previously reported have been made in the accompanying financial statements in order to make them conform to the classifications used for the year ended June 30, 2013.

Note 2. 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, 2013 and 2012 consist of temporarily and permanently 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.

	2013	2012
Receivable in less than one year	$ 91,218	$ 130,989
Receivable in one to five years	106,000	235,000
Total pledges receivable	$ 197,218	$ 365,989
Less discount to net present value	(7,655)	(22,111
Net pledges receivable	$ 189,563	$ 343,878

Note 3. 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, 2013 and 2012 are composed of the following:

Description	Cost	Market
2013		
Certificates of deposit	$ 891,836	$ 891,809
U.S. Government Securities	7,436,805	8,140,647
Corporate bonds and notes	2,657,460	2,584,684
Common stocks and mutual funds	10,720,397	11,915,208
Investment Securities	$ 21,706,498	$ 23,532,348
2012		
Certificates of deposit	$ 1,166,816	$ 1,166,775
U.S. Government Securities	8,056,903	9,067,495
Corporate bonds and notes	1,791,618	1,773,498
Common stocks and mutual funds	10,075,246	10,319,427
Investment Securities	$ 21,090,583	$ 22,327,195

At June 30, 2013 and 2012, there was $847,768 and $1,358,586, respectively, of cash and cash equivalents held in the brokerage accounts available to be invested by the Foundation.

Note 3. Investments (Continued)

The investment in real estate is included in investments on the statement of financial position and is comprised of the following:

Description	Cost	Accumulated Depreciation	Net Book Value
2013			
Land	$ 133,000	$ -	$ 133,000
Building	160,202	71,423	88,779
	$ 293,202	$ 71,423	$ 221,779
2012			
Land	$ 133,000	$ -	$ 133,000
Building	185,202	67,418	117,784
	$ 318,202	$ 67,418	$ 250,784

The following is a summary of the Foundation's investments at June 30, 2013 and 2012:

Description	Cost	Market
2013		
Investment securities	$ 21,706,498	$ 23,532,348
Real estate	293,202	221,779
	$ 21,999,700	$ 23,754,127
2012		
Investment securities	$ 21,090,583	$ 22,327,195
Real estate	318,202	250,784
	$ 21,408,785	$ 22,577,979

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.

Note 4. Interest in Life Estate

During the year ended June 30, 2013, a donor established a life estate giving a remainder interest in a residential property to the Foundation, while retaining a life interest in the property. A life estate agreement is an arrangement whereby the donor transfers property to a charity while retaining the right to occupy and otherwise enjoy the full use of the property for the donor's choice of a term of years or the lifetime of the donor. The present commitment value of the property is based on the individual's life expectancy, which provides for a contribution value based upon the fact the donor is

Note 4. Interest in Life Estate (Continued)

making a present commitment to a future charitable gift. The value of the property is based upon a third party appraisal value at the date of transfer of $447,500, discounted by the present value of the fair market rental value of the property at the time of the transfer of $1,700 per month. The present value was calculated based upon the life expectancy of the donor as calculated by the Social Security Life Expectancy tables and a 3.25% rate of return per the American Council on Gift Annuities. Assets held in life estates at June 30, 2013 and 2012 were $287,234 and $0, respectively, and are reported at the calculated present value on the Foundation's statement of financial position. Changes in the present value of the life estate will be reflected as changes in permanently restricted net assets in the Foundation's statement of activities.

Note 5. Equipment

Equipment consists of the following:

	2013	2012
Office equipment (at cost)	$ 21,845	$ 20,931
Accumulated depreciation	(18,709)	(17,391)
Net book value	$ 3,136	$ 3,540

Note 6. Custodial Liabilities

The gross receipts and disbursements for the custodial accounts, the interest earned, gains on investments, and the net transfers to/from the custodial accounts for the years ended June 30, 2013 and 2012 are as follows:

	2013	2012
Custodial receipts	$ 305,903	$ 303,699
Custodial payments	(699,053)	(557,268)
Interest and gains on investments	8,321	74,510
Net increase (decrease) in custodial liabilities	$ (384,829)	$ (179,059)

Note 7. Gift Annuities

Gift annuities payable consist of the following liabilities:

	2013	2012
Daniel and Orpha Cowgill Annuity	$ 31,364	$ 33,704
James K. Wright, Jr. Annuity	27,164	30,412
Benjamin and Mary Lou Mehrling Annuity	4,051	4,318
James K. and Gladys L. Wright Annuity	13,329	14,306
Jack and Pat Egle Annuity	30,446	31,680
MEO Annuity	61,925	63,431
Total	$ 168,279	$ 177,851

Note 7. Gift Annuities (Continued)

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.

Note 8. 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, 2013 and 2012 was $7,356 and $6,600, respectively.

Note 9. 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 monitors 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.

Note 10. 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 2013 and 2012, 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.

Note 11. 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 for the years ended June 30, 2013 and 2012, respectively.

Note 12. 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.

Note 12. Fair Value Measurements (Continued)

Fair value of assets measured on a recurring basis at June 30, 2013 and 2012 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2013				
Pledges receivable	$ 189,563	$ -	$ -	$ 189,563
Investments:				
US Large Cap (stock)	1,719,596	1,719,596	-	-
US Small and Mid-Cap (stock)	1,698,223	1,698,223	-	-
International Equity (stock)	1,491,893	1,491,893	-	-
Domestic Fixed Income	8,944,299	8,944,299	-	-
International Fixed Income	808,172	808,172	-	-
REITs (funds)	862,475	862,475	-	-
Commodities (funds)	1,168,357	1,168,357	-	-
Global Equity (funds)	210,086	210,086	-	-
Hedged Equity (funds)	1,279,909	1,279,909	-	-
Master Limited Partnerships (funds)	1,170,621	1,170,621	-	-
Diversified Alternatives (funds)	2,296,359	1,758,700	-	537,659
Managed Futures (funds)	990,549	990,549	-	-
	$ 22,830,102	$ 22,102,880	$ -	$ 727,222
June 30, 2012				
Pledges receivable	$ 343,878	$ -	$ -	$ 343,878
Investments:				
US Large Cap (stock)	1,668,249	1,668,249	-	-
US Small and Mid-Cap (stock)	1,442,248	1,442,248	-	-
International Equity (stock)	1,436,779	1,436,779	-	-
Domestic Fixed Income	9,067,497	9,067,497	-	-
International Fixed Income	673,518	673,518	-	-
REITs (funds)	787,013	787,013	-	-
Commodities (funds)	1,055,771	1,055,771	-	-
Global Equity (funds)	190,223	190,223	-	-
Hedged Equity (funds)	1,176,896	1,176,896	-	-
Master Limited Partnerships (funds)	780,488	780,488	-	-
Diversified Alternatives (funds)	2,201,605	1,696,156	-	505,449
Managed Futures (funds)	680,133	680,133	-	-
	$ 21,504,298	$ 20,654,971	$ -	$ 849,327

Note 12. Fair Value Measurements (Continued)

The fair values of Shepherd University Foundation's assets are measured using different techniques. The fair value for pledges receivable is determined by calculating the present value of the pledges expected to be received, using a discount rate of 6%. 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, 2013 and 2012 was $(89,123) and $705,090, respectively. The unrealized gain (loss) for the investments noted above included in the change in net assets at June 30, 2013 and 2012 was $707,716 and $(1,348,885).

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) consist of pledges receivable and funds invested in Collins Capital Low Volatility Performance Fund II, Ltd. (Collins Capital Fund), which is a speculative fund of funds. The changes in Level 3 assets are as follows for the years ended June 30, 2013 and 2012:

	Pledges Receivable	Collins Capital Fund	Total
Fair Value as of June 30, 2012	$ 343,878	$ 505,449	$ 849,327
New Pledges	-	-	-
Payments received	(168,771)	-	(168,771)
Change in valuation	14,456	-	14,456
Unrealized gain	-	32,210	32,210
Fair Value as of June 30, 2013	$ 189,563	$ 537,659	$ 727,222

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) June 30, 2012		
	Pledges Receivable	Collins Capital Fund	Total
Fair Value as of June 30, 2011	$ 586,475	$ 996,885	$ 1,583,360
New Pledges	60,000	-	60,000
Pledges written off	(100,100)	-	(100,100)
Payments received	(215,741)	-	(215,741)
Change in valuation	13,244	-	13,244
Withdrawal of funds	-	(450,000)	(450,000)
Unrealized (loss)	-	(11,436)	(11,436)
Fair Value as of June 30, 2012	$ 343,878	$ 535,449	$ 879,327

The amount of total gains or losses included in the changes in net assets for the years ending June 30, 2013 and 2012 were $46,666 and $1,808, respectively.

Note 13. Endowments

The Foundation's endowments consist of individual funds established to provide investment income for the Foundation's operations. The endowments include donor-restricted endowment funds. 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 managed equity funds with several investment managers using an investment philosophy that maintains equities in the range of 48-58% of the total fund, real estate in the range of 0% to 9%, fixed income securities in the range of 36% to 46%, and cash in the range of 0% to 7%.

Endowment net assets consisted of donor permanently restricted endowment funds of $23,268,017 and $22,071,980 as of June 30, 2013 and 2012, respectively. The investment income derived from the endowment funds is primarily restricted to providing scholarships for students.

Note 13. Endowments (Continued)

The changes in endowment net assets for the years ended June 30, 2013 and 2012 were as follows:

Endowment net assets at July 1, 2011	$ 20,578,440
Investment income	18,174
Contributions	1,488,412
Transfers	(13,046)
Endowment net assets at June 30, 2012	$ 22,071,980
Investment income	15,216
Contributions	1,157,033
Net assets released from restrictions	(840)
Transfers	24,628
Endowment net assets at June 30, 2013	$ 23,268,017

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 $378,000 and $655,750 as of June 30, 2013 and 2012, respectively. These deficiencies resulted from unfavorable market fluctuations.

Note 14. Subsequent Events

The Foundation has evaluated events and transactions subsequent to June 30, 2013 through August 29, 2013, 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, 2013 and through August 29, 2013, that require recognition or disclosure in the financial statements.

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

To the Governing Board of
Shepherd University

We have audited, in accordance with the 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 combined financial statements of Shepherd University (the "University"), as of and for the year ended June 30, 2013, and the related notes to the combined financial statements and have issued our report thereon dated October 22, 2013. Our report includes a reference to other auditors who audited the financial statements of the University's discretely presented component unit, as described in our report on the University's combined financial statements. The financial statements of the University's discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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 a combination of deficiencies, in internal control, 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from 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.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hayflich Grigoraci PLLC

Huntington, West Virginia
October 22, 2013