Shepherd University

Combined Financial Statements as of and
for the Years Ended June 30, 2011 and 2010,
and Independent Auditors' Reports

SHEPHERD UNIVERSITY

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INDEPENDENT AUDITORS' REPORT

To the Governing Board of
Shepherd University:

We have audited the combined statements of net assets of Shepherd University (the "University") as of June 30, 2011 and 2010, and the related combined statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These combined financial statements are the responsibility of the management of the University. Our responsibility is to express an opinion on the respective combined financial statements based on our audits. We did not audit the financial statements of the Shepherd University Foundation, Incorporated (the "Foundation"), a discretely presented component unit of the University. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the discretely presented financial statements of the Foundation, is based solely on the report of such other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The Foundation's financial statements, which were audited by other auditors, were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, such combined financial statements present fairly, in all material respects, the respective financial position of the University and the discretely presented component unit of the University as of June 30, 2011 and 2010, and changes in net assets and the cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis on pages 3 to 9, which is the responsibility of the University's management, is not a required part of the combined financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2011, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

October 31, 2011

Shepherd University
Management Discussion and Analysis
Fiscal Years 2011 and 2010

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 2011 data compared to the financial statements presented for fiscal year 2010. There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. This discussion and analysis of the University’s financial statements provides an overview of its financial activities for the year and is required supplemental information.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of June 30, 2011 and 2010. The Statement of Net Assets presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities). The difference between current and noncurrent assets and liabilities are discussed in the footnotes to the financial statements.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors and lending institutions. Finally, the Statement of Net Assets provides a picture of net assets and their availability for expenditure by the University.

Net assets are divided into three major categories. The first category, invested in capital assets, net of debt, provides the institution’s equity in property, plant, and equipment owned by the institution. The second asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. Shepherd University does not currently have nonexpendable restricted net assets since all funds of this nature are directed to the Shepherd University Foundation. The corpus of nonexpendable restricted resources is available only for investment purposes. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The third category is unrestricted net assets. Unrestricted assets are available for any lawful purpose of the institution.

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

	June 30		
	2011	2010	2009
Assets:			
Cash	$ 18,887	$ 17,747	$ 18,216
Other current Assets	1,960	1,747	1,933
Noncurrent Assets	121,874	122,779	123,630
Total Assets	$ 142,721	$ 142,273	$ 143,779
Liabilities:			
Current Liabilities	$ 8,394	$ 8,090	9,071
Noncurrent Liabilities	54,158	52,905	51,604
Total Liabilities	$ 62,552	$ 60,995	$ 60,675
Net Assets:			
Invested in Capital Assets	$ 72,840	$ 72,052	$ 70,272
Restricted	537	494	494
Unrestricted	6,792	8,733	12,338
Total Net Assets	$ 80,169	$ 81,278	$ 83,104

Assets

- Total Assets for fiscal year 2011 increased $448,000.
- Cash at the end of fiscal year 2011 increased by $1,140,000, due in part to the receipt of State bond funds to support the capital cost of the University's Center for Contemporary Arts Phase II project (CCA Phase II). Funds to support this project were also received from the Shepherd University Foundation.
- Due from the Commission increased $70,000 from the previous year as a result of obligations of the Higher Education Policy Commission (HEPC) for support of the CCA Phase II project.
- Accounts Receivable increased $336,000, due largely to grants receivables associated with the University's four federal Housing and Urban Development (HUD) grants.
- Inventories decreased $415,000 due to better management of textbook inventories in the University bookstore.
- The only significant shift in Non-current Assets between FY 2010 and FY 2011 was in Capital Assets – Net, which declined $822,000. The total expended for construction in progress was $2.7 million. Additions to Capital Assets equaled $5.7 million, including $4.4 million for buildings, and equipment and library additions of $1.1 million. These increases were offset by depreciation in the amount of $5.7 million.

Liabilities

- Total Liabilities for fiscal year 2011 increased $1.6 million.
- Accounts Payable decreased by $676,000, reflecting the completion of the Wellness Center in FY 2010 and final payments in that period for those capital expenditures.
- Accrued Liabilities increased $246,000 in fiscal year 2011 as a result of salary increases.

- The Debt Obligation Due to the Commission declined $232,000 as a result of payment to the HEPC for system debt. This debt will be paid in full in fiscal year 2012.
- Deferred Revenue increased $983,000 in fiscal year 2011, reflecting the matching funds received from the University Foundation to support CCA Phase II construction.
- 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 2011, this allocation to the University resulted in a post-employment benefits liability increase of $2.7 million.
- The noncurrent portion of the Debt Obligation Due the Commission was reduced to zero in FY 2011. The total balance now due is reflected in Current Liabilities and will be paid in full in FY 2012.
- The noncurrent portion of Bonds Payable and Leases Payable declined by $1.2 million and $80,000, respectively, in accordance with their related payment schedules.

Net Assets

- Total Net Assets declined $1.1 million in fiscal year 2011.
- During fiscal year 2011, Invested in Capital Assets, net of related debt, increased $788,000.
- Total Expendable Restricted Net Assets did not realize any significant shifts year-over-year.
- Unrestricted Net Assets declined $1.9 million during the period.

Statement of Revenues, Expenses, and Changes in Net Assets

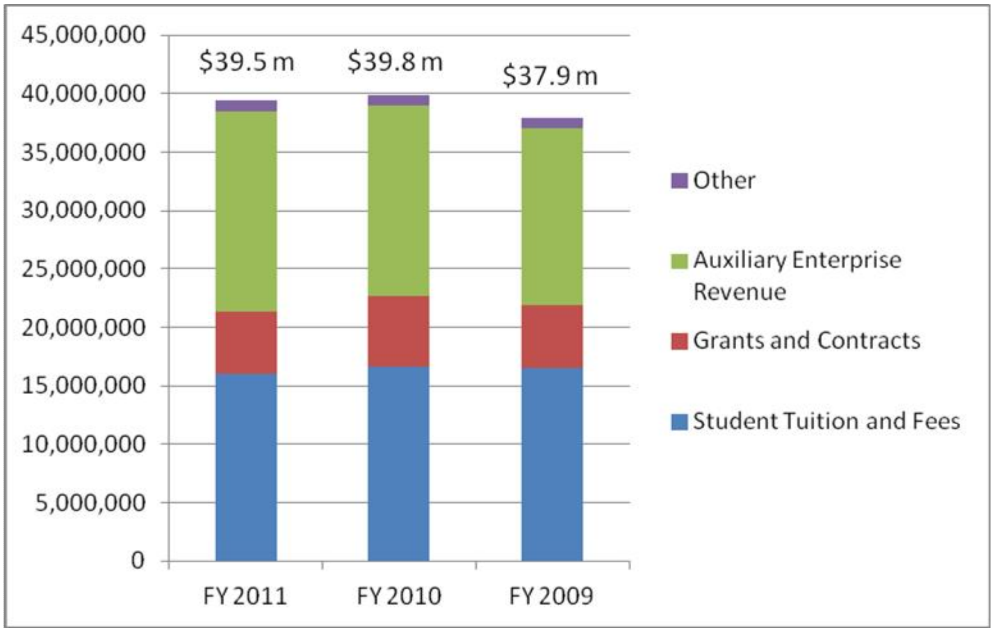
Changes in total net assets on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received and expenses paid by the institution, both operating and nonoperating, and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

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Revenues received for which goods and services are not provided are reported as nonoperating revenues. For example, State appropriations are nonoperating because they are provided by the State to the institution without the State directly receiving commensurate goods and services for those revenues.

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

	FY 2011	FY 2010	FY 2009
Operating Revenues	$39,459	$39,848	$37,859
Operating Expenses	57,276	56,800	51,249
Operating Loss	(17,817)	(16,952)	(13,390)
Nonoperating Revenues – Net	14,974	14,334	13,753
(Loss)Income before Other Revenues, Expenses, Gains, or Losses	(2,843)	(2,618)	363
Capital and Bond Proceeds From Commission	1,274	92	-
Capital and Bond Proceeds From State	452	-	-
Private Capital Grants	8		
State Capital Grants (Federal)	-	700	71
(Decrease) Increase in Net Assets	(1,109)	(1,826)	434
Net Assets – Beginning of Year	81,278	83,104	82,670
Net Assets – End of Year	$80,169	$81,278	$83,104

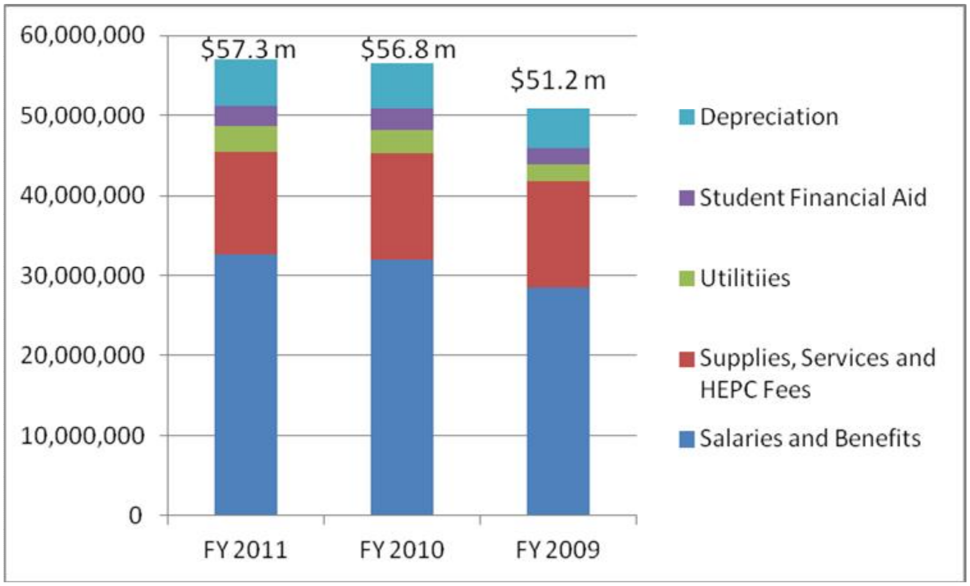
Operating Revenues



Operating Revenues

- Operating Revenues decreased $390,000 or 1% in fiscal year 2011.
- During fiscal year 2011, Student Tuition and Fees declined $707,000 or 4%. This reduction was due largely to an increase in the mix of in-state students attending the University. In-state fees were frozen in FY 2011 and out-of-state fees were increased 3%. Total annualized full-time equivalent enrollments increased by 57 for FY 2011.
- Federal Grants and Contracts increased $434,000 due to new federal HUD grant activity.
- State Grants and Contracts declined $1.2 million as Department of Health and Human Resources Medicaid grant activity coming through the State expired.
- Auxiliary Enterprises increased $861,000 or 5% year-over-year. This increase was driven largely by revenues generated under the University's Residence Life and Dining Services programs.

Operating Expenses



Operating Expenses

- Operating Expense increased $475,000 or 1% in fiscal year 2011.
- Salaries and Wages increased $668,000 or 3% during the period, while Benefits declined by $85,000 or 1%. Salary expenditures were driven in part by an increase in salaries included in the fiscal year 2011 budget. The decline in Benefits was associated with the expiration of a significant federal grant through the University's research corporation and turnover in higher compensated positions.
- During fiscal year 2011, Supplies and Other Services decreased $481,000 or 4% as the University focused on better cost management.
- Utilities expenses increased $316,000 or 10% during the period, due to continued increases in utility rates and utility expense associated with the new Wellness Center.
- Depreciation expense increased $140,000 or 2% in fiscal year 2011, reflecting recent capital investments at the University.

Nonoperating Revenues (Expenses)

- State and Federal Nonoperating Revenue and Expense reflect adjustments in state appropriations and federal stimulus funding. Declines in State Appropriations of $143,000 were more than offset by an increase in federal stimulus dollars of $173,000 for the period. Nonoperating revenue also reflects an increase in Pell funding received by Shepherd students of $785,000.
- Capital and Bond Proceeds From Commission increased $1.2 million during the period, reflecting the bond funds for CCA Phase II construction coming from the HEPC, as noted above.
- Capital and Bond Proceeds From State increased $452,000 during the period, reflecting the bond funds for capital improvements coming from the WV Economic Development Authority.
- The change in State Capital Grants (Federal) of $700,000 reflects federal stimulus funds for energy conservation in fiscal year 2010 to the University to support replacement of HVAC systems on campus.

Statement of Cash Flows

The final statement presented by the University is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the University during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Condensed Combined Statements of Cash Flows
(In thousands of dollars)

	FY 2011	FY 2010	FY 2009
Net Cash (used in) provided by:			
Operating activities	($ 8,658)	($ 8,362)	($ 7,874)
Noncapital financing activities	17,398	16,612	14,993
Capital and related financing activities	(7,663)	(8,848)	(23,555)
Investing activities	63	129	16,351
Increase (decrease) in Cash	$ 1,140	($ 469)	($ 85)
Cash – beginning of year	$ 17,747	$ 18,216	$ 18,301
Cash – end of year	$ 18,887	$ 17,747	$ 18,216

Economic Outlook

Revenue streams for the University are largely driven by state appropriations, tuition and fees and auxiliary services. While federal stimulus funds expired at the end of fiscal year 2011, state appropriations to the University for fiscal year 2012 successfully replaced these stimulus dollars. Although the number of high school graduates in the state continues to decline, the University is well positioned in the eastern region of the state to attract students and increase enrollments going forward. Finally, the University has been successful in growing net auxiliary revenue by utilizing existing capacity on campus.

SHEPHERD UNIVERSITY

COMBINED STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2011 AND 2010

ASSETS	2011	2010
CURRENT ASSETS:		
Cash and cash equivalents	$ 18,886,919	$ 17,747,248
Due from the Commission	74,618	5,075
Due from other State agencies	450,850	235,530
Accounts receivable — net	922,421	586,826
Loans to students — current portion	90,578	82,895
Inventories	421,690	836,932
Total current assets	20,847,076	19,494,506
NONCURRENT ASSETS:		
Cash and cash equivalents	74,515	71,499
Investments	393,414	393,111
Loans to students — net of allowance of $305,474 and $295,923 in 2011 and 2010, respectively	462,962	512,245
Bond issuance costs — net	857,006	894,277
Capital assets — net	120,085,549	120,907,523
Total noncurrent assets	121,873,446	122,778,655
TOTAL	$ 142,720,522	$ 142,273,161

(Continued)

SHEPHERD UNIVERSITY

COMBINED STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2011 AND 2010

LIABILITIES	2011	2010
CURRENT LIABILITIES:		
Accounts payable	$ 2,241,219	$ 2,916,995
Accrued liabilities	1,999,634	1,753,810
Due to the Commission	-	9,065
Due to other State agencies	13,634	4,444
Compensated absences — current portion	720,017	789,239
Debt obligation due to the Commission — current portion	196,526	428,061
Deferred revenue	1,778,444	795,453
Deposits held in custody for others	204,943	196,232
Bonds payable — current portion	1,160,000	1,120,000
Capital lease obligations — current portion	79,183	77,000
Total current liabilities	8,393,600	8,090,299
NONCURRENT LIABILITIES:		
Advances from federal sponsors	591,745	588,192
Compensated absences	388,484	395,278
Other postemployment benefits liability	6,511,101	3,795,869
Debt obligation due to the Commission	-	196,526
Bonds payable	46,444,593	47,627,210
Capital lease obligations	222,309	301,492
Total noncurrent liabilities	54,158,232	52,904,567
Total liabilities	62,551,832	60,994,866
NET ASSETS:		
Invested in capital assets — net of related debt	72,839,944	72,051,511
Restricted for — expendable:		
Loans	106,879	108,739
Debt service	282,312	275,558
Other restricted	147,706	109,353
Total expendable	536,897	493,650
Unrestricted	6,791,849	8,733,134
Total net assets	80,168,690	81,278,295
TOTAL	$ 142,720,522	$ 142,273,161

See notes to combined financial statements.

(Concluded)

SHEPHERD UNIVERSITY

THE SHEPHERD UNIVERSITY FOUNDATION, INCORPORATED
A COMPONENT UNIT OF SHEPHERD UNIVERSITY
STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2011 AND 2010

	2011	2010
ASSETS		
CASH AND CASH EQUIVALENTS	$ 2,271,795	$ 2,150,994
PLEDGES RECEIVABLE (Net of present value adjustment)	586,475	1,049,743
CONTRIBUTIONS RECEIVABLE	-	19,350
ACCRUED INTEREST RECEIVABLE	59,236	65,916
PREPAID EXPENSES	3,325	2,782
INVESTMENTS	23,535,026	21,490,881
EQUIPMENT — Net	4,071	4,398
TOTAL ASSETS	$26,459,928	$24,784,064
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	$ 163	$ 1,115
Accrued payroll	4,238	3,005
Custodial liabilities	3,336,212	3,338,541
Gift annuities payable	186,749	195,026
Total liabilities	3,527,362	3,537,687
NET ASSETS:		
Unrestricted	(1,566,363)	(3,226,912)
Temporarily restricted	3,920,489	4,399,595
Permanently restricted	20,578,440	20,073,694
Total net assets	22,932,566	21,246,377
TOTAL LIABILITIES AND NET ASSETS	$26,459,928	$24,784,064

See notes to combined financial statements.

SHEPHERD UNIVERSITY

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
OPERATING REVENUES:		
Student tuition and fees — net of scholarship allowance of $9,670,919 and $8,617,227 in 2011 and 2010, respectively	$ 15,959,200	$ 16,665,777
Contracts and grants:		
Federal	1,167,200	733,633
State	4,004,533	5,191,522
Private	194,300	80,124
Interest on student loans receivable	9,109	17,248
Sales and services of educational activities	54,895	45,291
Auxiliary enterprise revenue — net of scholarship allowance of $417,493 and $332,507 in 2011 and 2010, respectively	17,173,398	16,312,817
Other operating revenues	895,927	801,814
Total operating revenues	39,458,562	39,848,226
OPERATING EXPENSES:		
Salaries and wages	24,570,923	23,902,989
Benefits	8,049,546	8,134,122
Supplies and other services	12,765,283	13,246,489
Utilities	3,236,248	2,919,891
Student financial aid — scholarships and fellowships	2,671,715	2,760,775
Depreciation	5,676,402	5,536,626
Fees assessed by the Commission for operations	305,744	299,681
Total operating expenses	57,275,861	56,800,573
OPERATING LOSS	(17,817,299)	(16,952,347)

(Continued)

SHEPHERD UNIVERSITY

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
NONOPERATING REVENUES (EXPENSES):		
State appropriations	$ 10,153,214	$ 10,296,444
State fiscal stabilization funds (federal)	895,477	722,038
Federal Pell grants	5,603,860	4,818,763
Investment income	58,759	56,612
Interest on indebtedness	(2,272,324)	(2,178,679)
Fees assessed by the Commission for debt service	(119,323)	(140,682)
Gifts	753,509	774,899
Loss on disposal of equipment	(90,602)	(15,291)
Other	(8,181)	-
Net nonoperating revenues	14,974,389	14,334,104
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	(2,842,910)	(2,618,243)
CAPITAL AND BOND PROCEEDS FROM COMMISSION	1,273,565	92,500
CAPITAL AND BOND PROCEEDS FROM THE STATE	452,140	-
PRIVATE CAPITAL GRANTS	7,600	-
STATE CAPITAL GRANTS (FEDERAL)	-	700,000
DECREASE IN NET ASSETS	(1,109,605)	(1,825,743)
NET ASSETS — Beginning of year	81,278,295	83,104,038
NET ASSETS — End of year	$ 80,168,690	$ 81,278,295

See notes to combined financial statements.

(Concluded)

SHEPHERD UNIVERSITY

THE SHEPHERD UNIVERSITY FOUNDATION, INCORPORATED
A COMPONENT UNIT OF SHEPHERD UNIVERSITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
REVENUE AND OTHER SUPPORT:				
Cash contributions	$ -	$ 1,225,114	$ 471,691	$ 1,696,805
Stock contributions	-	-	22,119	22,119
Other non-cash contributions	93,000	52,574	-	145,574
Other revenue	17,977	893	-	18,870
Interest and dividends	-	500,165	18,357	518,522
Net realized and unrealized gains on investments	2,251,758	74,642	-	2,326,400
Transfers	(90,938)	98,359	(7,421)	-
Net assets released from restrictions	2,430,853	(2,430,853)	-	-
Total revenue and other support	4,702,650	(479,106)	504,746	4,728,290
EXPENSES:				
Program services:				
Scholarships and awards	2,238,113	-	-	2,238,113
College support	200,176	-	-	200,176
General and administrative:				
Salaries	266,675	-	-	266,675
Investment management fees	160,426	-	-	160,426
Printing and reproduction costs	25,033	-	-	25,033
Payroll taxes and benefits	49,120	-	-	49,120
Depreciation	6,333	-	-	6,333
Administrative expense	2,590	-	-	2,590
Rent	16,603	-	-	16,603
Office supplies and postage	4,201	-	-	4,201
Insurance	7,717	-	-	7,717
Changes in gift annuities	13,581	-	-	13,581
Professional fees	22,532	-	-	22,532
Staff development	2,378	-	-	2,378
Development	23,441	-	-	23,441
Telephone	2,167	-	-	2,167
Technology	768	-	-	768
Miscellaneous	247	-	-	247
Total expenses	3,042,101	-	-	3,042,101
Increase (decrease) in net assets	1,660,549	(479,106)	504,746	1,686,189
NET ASSETS — Beginning of year	(3,226,912)	4,399,595	20,073,694	21,246,377
NET ASSETS — End of year	$ (1,566,363)	$ 3,920,489	$ 20,578,440	$ 22,932,566

See notes to combined financial statements.

SHEPHERD UNIVERSITY

THE SHEPHERD UNIVERSITY FOUNDATION, INCORPORATED
A COMPONENT UNIT OF SHEPHERD UNIVERSITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

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

See notes to combined financial statements.

SHEPHERD UNIVERSITY

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	$ 16,229,157	$ 16,552,353
Contracts and grants	5,818,034	6,465,972
Payments to and on behalf of employees	(29,731,992)	(28,871,195)
Payments to suppliers	(13,008,627)	(14,028,434)
Payments to utilities	(3,182,808)	(2,578,945)
Payments for scholarships and fellowships	(2,671,715)	(2,760,775)
Loans issued to students	(66,688)	(122,249)
Collection of loans to students	108,288	92,713
Sales and service of educational activities	54,895	45,291
Auxiliary enterprise charges	17,193,909	16,324,014
Fees assessed by the Commission	(305,744)	(299,681)
Other receipts — net	905,036	819,062
Net cash used in operating activities	(8,658,255)	(8,361,874)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	10,145,033	10,296,444
State fiscal stabilization funds (federal)	895,477	722,038
Federal Pell grants	5,603,860	4,818,763
Gifts	753,509	774,899
Federal student loan program — direct lending receipts	19,770,755	18,021,497
Federal student loan program — direct lending payments	(19,770,755)	(18,021,497)
Net cash provided by noncapital financing activities	17,397,879	16,612,144
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Private capital grants received	7,600	-
State capital grants (federal) received	-	700,000
Capital and bond proceeds from the Commission	1,085,912	92,500
Capital and bond proceeds from the State	283,153	-
Interest paid on capital debt and leases	(2,275,761)	(2,313,101)
Purchases of capital assets	(5,016,248)	(7,024,863)
Principal paid on capital debt and leases	(1,625,061)	(1,582,810)
Withdrawals from (deposits to) noncurrent cash and cash equivalents	(3,016)	1,420,981
Fees assessed by the Commission	(119,323)	(140,682)
Net cash used in capital financing activities	(7,662,744)	(8,847,975)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(303)	(393,111)
Proceeds from sales of investments	-	458,575
Interest on investments	63,094	63,800
Net cash provided by investing activities	62,791	129,264
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,139,671	(468,441)
CASH AND CASH EQUIVALENTS — Beginning of year	17,747,248	18,215,689
CASH AND CASH EQUIVALENTS — End of year	$ 18,886,919	$ 17,747,248

(Continued)

SHEPHERD UNIVERSITY

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (17,817,299)	$ (16,952,347)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	5,676,402	5,536,626
Amortization of bond issuance costs	37,271	37,271
Net accretion of premiums/discounts on bonds payable	(22,617)	(22,617)
Changes in assets and liabilities:		
Accounts receivables — net	(339,930)	62,147
Loans to students — net	41,600	(29,536)
Due from the Commission	287,097	204,925
Due from other State agencies	(215,320)	280,841
Inventories	415,242	(360,196)
Accounts payable	(604,558)	(105,490)
Accrued liabilities	249,261	248,025
Compensated absences	(76,016)	15,501
Other postemployment benefits liability	2,715,232	2,902,390
Due to the Commission	(9,065)	7,007
Due to other State agencies	9,190	3,026
Deferred revenue	982,991	(221,101)
Deposits held in custody for others	8,711	10,296
Advances from federal sponsors	3,553	21,358
NET CASH USED IN OPERATING ACTIVITIES	$ (8,658,255)	$ (8,361,874)
NONCASH TRANSACTIONS — Property additions in accounts payable	$ 1,053,558	$ 1,124,776

See notes to combined financial statements.

(Concluded)

1. ORGANIZATION

Shepherd University (the "University") is governed by the Shepherd University Board of Governors (the "Board"). The Board was established by Senate Bill 653 (S.B. 653).

Powers and duties of the Board include, but are not limited to, the power to determine, control, supervise, and manage the financial, business, and educational policies and affairs of the University under its jurisdiction; the duty to develop a master plan for the institution; the power to prescribe the specific functions and the University's budget request; the duty to review at least every five years all academic programs offered at the University; and the power to fix tuition and other fees for the different classes or categories of students enrolled at its institution.

S.B. 653 also created the West Virginia Higher Education Policy Commission (the "Commission"), which is responsible for developing, gaining consensus around, and overseeing the implementation and development of a higher education public policy agenda.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements of the University have been prepared in accordance with generally accepted accounting principles as prescribed by Governmental Accounting Standards Board standards (GASB). The financial statement presentation required by GASB provide a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows.

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

Reporting Entity — The University is an operating unit of the West Virginia Higher Education Fund and represents separate funds of the State of West Virginia (the "State") that are not included in the State's general fund. The University is a separate entity which, along with all the State institutions of higher education, the Commission (which includes West Virginia Network for Educational Telecomputing (WVNET)), and West Virginia Council for Community and Technical College Education, form the Higher Education Fund of the State. The Higher Education Fund is considered a component unit of the State, and its financial statements are discretely presented in the State's comprehensive annual financial report.

The accompanying combined financial statements present all funds under the authority of the University, including its blended component unit, the Shepherd University Research Corporation (the "Research Corporation"), a nonprofit, nonstock corporation. The basic criterion for inclusion in the accompanying combined financial statements is the exercise of oversight responsibility derived from the University's ability to significantly influence operations and accountability for fiscal matters of the Research Corporation. Their related organizations, the Shepherd University Foundation, Incorporated (the "Foundation") and Alumni Association, are not part of the University reporting entity and are not included in the accompanying combined financial statements as the University has no ability to designate management, cannot significantly influence operations of these entities, and is not accountable for the fiscal matters of the Foundation and Alumni Association affiliates under GASB.

The audited financial statements of the Foundation are discretely presented here with the University's financial statements for the fiscal years ended June 30, 2011 and 2010, in accordance with GASB. The Foundation is a private nonprofit organization that reports under FASB standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's audited financial information as it is presented herein (see also Notes 14 and 18).

Financial Statement Presentation — GASB establishes standards for external financial reporting for public colleges and universities and requires that financial statements be presented on a combined basis to focus on the University as a whole. Net assets are classified into four categories according to external donor restrictions or availability of assets for satisfaction of the University's obligations. The University's net assets are classified as follows:

Invested in Capital Assets — Net of Related Debt — This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted Net Assets — Expendable — This includes resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

The West Virginia State Legislature (the "State Legislature"), as a regulatory body outside the reporting entity, has restricted the use of certain funds by Article 10, *Fees and Other Money Collected at State Institutions of Higher Education*, of the West Virginia State Code. House Bill 101 passed in March 2004 simplified the tuition and fee restrictions to auxiliaries and capital items. These activities are fundamental to the normal ongoing operations of the institution. These restrictions are subject to change by future actions of the State Legislature.

Restricted Net Assets — Nonexpendable — This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The University does not have any restricted nonexpendable net assets at June 30, 2011 or 2010.

Unrestricted Net Assets — Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the Board to meet current expenses for any purpose.

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

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

Cash and cash equivalents balances on deposit with the State of West Virginia Treasurer's Office (the "State Treasurer") are pooled by the State Treasurer with other available funds of the State for investment purposes by the West Virginia Board of Treasury Investments (BTI). These funds are transferred to the BTI and the BTI is directed by the State Treasurer to invest the funds in specific external investment pools in accordance with West Virginia Code, policies set by the BTI, and by provisions of bond indentures and trust agreements, when applicable. Balances in the investment pools are recorded at fair value or amortized cost, which approximates fair value. Fair value is determined by a third-party pricing service based on asset portfolio pricing models and other sources in accordance with GASB. The BTI was established by the State Legislature and is subject to oversight by the State Legislature. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. The amounts on deposit are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying combined financial statements.

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

Allowance for Doubtful Accounts — It is the University's policy to provide for future losses on uncollectible accounts, contracts, grants, and loans receivable based on an evaluation of the underlying account, contract, grant, and loan balances, the historical 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 and investments that are (1) externally restricted to make debt service payments and long-term loans to students, or to maintain sinking or reserve funds, (2) to purchase capital or other noncurrent assets or settle long-term liabilities, and (3) permanently restricted net assets, are classified as noncurrent assets in the accompanying combined statements of net assets.

Investments — Investments are recorded at fair value. The University's investments were on deposit with WesBanco Bank, Inc. (the "Trustee Bank"). These funds primarily represented unexpended proceeds of bond issuances and were restricted to expenditures for capital improvements and bond-related costs. These funds were classified as long term due to the restrictions.

Bond Issuance Costs — Bond issuance costs consist of costs that have been incurred in connection with the issuance of bonds. These costs, consisting primarily of the underwriter's discount and legal and consulting fees, are amortized over the terms of the bonds.

Capital Assets — Capital assets include property, plant, and equipment, books and materials that are part of a catalogued library, and infrastructure assets. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Interest on related borrowing, net of interest earnings on invested proceeds, capitalized during the period of construction was $0 and $131,295 for the years ended June 30, 2011 and 2010, respectively. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and infrastructure, 20 years for land improvements and library books, and 3 to 10 years for furniture and equipment. The University capitalizes all purchases of library books and uses a capitalization threshold of $1,000 for other capital assets.

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

Compensated Absences and Other Postemployment Benefits (OPEBs) — GASB provides standards for the measurement, recognition, and display of OPEB expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for postemployment benefits for the State. Effective July 1, 2007, the University was required to participate in this multiple employer cost-sharing plan, the West Virginia Retiree Health Benefit Trust Fund, sponsored by the State of West Virginia. Details regarding this plan can be obtained by contacting the West Virginia Public Employees Insurance Agency (PEIA), State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston, WV 25305-0710 or http://www.wvpeia.com.

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

The University's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1 1/2 sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. For employees hired after 1988 or who were hired before 1988 but did not choose such coverage until after 1988 but before July 1, 2001, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired on July 1, 2001, or later will no longer receive sick leave credit toward insurance premiums when they retire. Additionally, all retirees have the option to purchase continued coverage regardless of their eligibility for premium credits. This liability is now provided for under the multiple employer cost-sharing plan approved by the State.

Certain faculty employees (generally those with less than a 12-month contract) earn a similar extended health or life insurance coverage retirement benefit based on years of service. Generally 3 1/3 years of teaching service extend health insurance for one year of single coverage and five years extend health insurance for one year of family coverage. The same hire date mentioned above applies to coverage for faculty employees also. Faculty hired after July 1, 2009, will no longer receive years of service credit toward insurance premiums when they retire. 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 assets.

Risk Management — The State's Board of Risk and Insurance Management (BRIM) provides general, property and casualty, and liability coverage to the University and its employees. Such coverage may be provided to the University by BRIM through self-insurance programs maintained by BRIM or policies underwritten by BRIM that may involve experience-related premiums or adjustments to BRIM.

BRIM engages an independent actuary to assist in the determination of its premiums so as to minimize the likelihood of premium adjustments to the University or other participants in BRIM's insurance programs. As a result, management does not expect significant differences between the premiums the University is currently charged by BRIM and the ultimate cost of that insurance based on the University's actual loss experience. In the event such differences arise between estimated premiums currently charged by BRIM to the University and the University's ultimate actual loss experience, the difference will be recorded as the change in estimate becomes known.

In addition, through its participation in the PEIA and third-party insurers, the University has obtained health, life, prescription drug coverage, and coverage for job-related injuries for its employees. In exchange for payment of premiums to PEIA and the third-party insurer, the University has transferred its risks related to health, life, prescription drug coverage, and job-related injuries.

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

Operating Revenues — Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances; (3) most federal, state, local, and nongovernmental grants and contracts; and (4) sales and services of educational activities.

Nonoperating Revenues — Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB, such as state appropriations, federal Pell grants, and investment income.

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

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

Federal Financial Assistance Programs — The University makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students, through entities like the University. Direct student loan receivables are not included in the University's statements of net assets, as the loans are repayable directly to the U.S. Department of Education. In 2011 and 2010, the University received and disbursed approximately $19,771,000 and $18,021,000, respectively, under the Federal Direct Student

Loan Program on behalf of the U.S. Department of Education, which is not included as revenue and expense in the statements of revenues, expenses, and changes in net assets.

The University also distributes other student financial assistance funds on behalf of the federal government to students under the federal Pell Grant, Supplemental Educational Opportunity Grant, SMART Grant, College Work Study programs, TEACH Grant, and Academic Competitiveness Grant. The activity of these programs is recorded in the accompanying combined financial statements. In 2011 and 2010, the University received and disbursed approximately $6,042,000 and $5,209,000, respectively, under these federal student aid programs.

Scholarship Allowances — Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the combined statements of revenues, expenses, and changes in net assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the student's behalf.

Financial aid to students is reported in the combined financial statements under the alternative method as prescribed by the National Association of College and University Business Officers. Certain aid, such as loans, funds provided to students as awarded by third parties, and Federal Direct Lending, is accounted for as a third-party payment (credited to the student's account as if the student made the payment). All other aid is reflected in the combined financial statements as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on a University basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third-party aid.

Government Grants and Contracts — Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The University recognizes revenue associated with direct costs as the related costs are incurred. Recovery of related indirect costs is generally recorded at fixed rates negotiated for a period of one to five years.

Income Taxes — The University is exempt from income taxes, except for unrelated business income, as a nonprofit organization under federal income tax laws and regulations of the Internal Revenue Service.

Cash Flows — Any cash and cash equivalents escrowed, restricted for noncurrent assets, or in funded reserves have not been included as cash and cash equivalents for the purpose of the statements of cash flows.

Use of Estimates — The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Newly Adopted Statements Issued by the Governmental Accounting Standards Board — During 2011, the University adopted Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes new categories for reporting fund balances and revised the definitions for governmental fund types. The adoption of this statement did not have a material impact on its combined financial statements.

The University also adopted Statement No. 59, *Financial Instruments Omnibus*, effective for fiscal years beginning after June 15, 2010. This statement improves financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards related to certain financial instruments and external investment pools. The adoption of this statement did not have a material impact on its combined financial statements.

Recent Statements Issued by the Governmental Accounting Standards Board — The Governmental Accounting Standards Board has issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, effective for fiscal years beginning after December 15, 2011. This statement addresses how to account for and report service concession arrangements (SCAs) by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators. The University has not yet determined the effect that the adoption of GASB Statement No. 60 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34,* effective for fiscal years beginning after June 15, 2012. This statement improves financial reporting for a governmental financial reporting entity by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of the entity. The University has not yet determined the effect that the adoption of GASB Statement No. 61 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for fiscal years beginning after December 15, 2011. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance included in the FASB and AICPA pronouncements issued on or before November 30, 1989. This statement will improve financial reporting by contribution to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. The University has not yet determined the effect that the adoption of GASB Statement No. 62 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for fiscal years beginning after December 15, 2011. 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 University has not yet determined the effect that the adoption of GASB Statement No. 63 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, effective for fiscal years beginning after June 15, 2011. The objective of this statement is to improve financial reporting by clarifying whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The University has not yet determined the effect that the adoption of GASB Statement No. 64 may have on its financial statements.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents as of June 30, 2011 and 2010, was held as follows:

	2011		
	Current	Noncurrent	Total
State Treasurer	$ 18,473,143	$ -	$ 18,473,143
Trustee Bank	-	74,515	74,515
Bank	413,776	-	413,776
	$ 18,886,919	$ 74,515	$ 18,961,434

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

Cash and cash equivalents with the State Treasurer includes $117,401 in 2011 and $14,512 in 2010 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, 2011 and 2010, was $74,515 and $71,499, respectively, and was invested in U.S. Treasury money market funds.

The combined carrying amount of cash in the bank at June 30, 2011 and 2010, was $413,776 and $409,673, respectively, as compared with the combined bank balance of $477,830 and $516,874, 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, interest bearing accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. Non-interest bearing accounts are 100% insured through December 31, 2012

Amounts with the State Treasurer as of June 30, 2011 and 2010, are comprised of the following investment pools:

The BTI has adopted an investment policy in accordance with the "Uniform Prudent Investor Act." The "prudent investor rule" guides those with responsibility for investing the money for others. Such fiduciaries must act as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income; preserve capital; and, in general, avoid speculative investments. The BTI's investment policy is to invest assets in a manner that strives for maximum safety, provides adequate liquidity to meet all operating requirements, and achieves the highest possible investment return consistent with the primary objectives of safety and liquidity. The BTI recognizes that risk, volatility, and the possibility of loss in purchasing power are present to some degree in all types of investments. Due to the short-term nature of BTI's Consolidated Fund, the BTI believes that it is imperative to review and adjust the investment policy in reaction to interest rate market fluctuations/trends on a regular basis and has adopted a formal review schedule. Investment policies have been established for each investment pool and account of the BTI's Consolidated Fund. Of the BTI's Consolidated Fund pools and accounts in which the Commission invest, all are subject to credit risk.

WV Money Market Pool — Credit Risk — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. For the years ended June 30, 2011 and 2010, 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, 2011 and 2010, the WV Money Market Pool investments had a total carrying value of $3,018,560,000 and $2,876,711,000, respectively, of which the University's ownership represents 0.54% and 0.56%, respectively.

WV Government Money Market Pool — Credit Risk — For the years ended June 30, 2011 and 2010, 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, 2011 and 2010, the WV Government Money Market Pool investments had a total carrying value of $262,692,000 and $221,183,000, respectively, of which the University's ownership represents 0.04% and 0.05%, respectively.

WV Short Term Bond Pool:

Credit Risk — The BTI limits the exposure to credit risk in the WV Short Term Bond Pool by requiring all corporate bonds to be rated A by Standards & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standards & Poor's and P-1 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*		2011		2010	
Security Type	**Moody's**	**S&P**	**Carrying Value**	**Percent of Pool Assets**	**Carrying Value**	**Percent of Pool Assets**
Corporate asset backed securities	Aaa	AAA	$ 87,197	18.40 %	$ 24,330	5.37 %
	Aaa	NR *	19,891	4.20	10,353	2.28
	Aa3	AAA	-	-	1,000	0.22
	Aa3	AA+ **	454	0.10	-	-
	Ba1	CC **	-	-	45	0.01
	Ba2	BB **	-	-	219	0.05
	B1	BBB **	-	-	605	0.13
	B1	CCC **	885	0.19	857	0.19
	B2	CCC **	-	-	366	0.08
	B3	B **	366	0.08	442	0.10
	B3	BBB **	631	0.13	247	0.05
	B3	CCC **	-	-	554	0.12
	Ca	CCC **	664	0.14	-	-
	Caal	CCC **	-	-	230	0.05
	Caa2	CCC **	473	0.10	779	0.17
	Caa3	CCC **	393	0.08	-	-
	Caa3	D **	27	0.01	-	-
	NR *	AAA	-	-	3,538	0.78
	NR *	NR *	4,000	0.84	-	-
			114,981	24.27	43,565	9.60
Corporate bonds and notes	Aaa	AAA	-	-	72,549	16.00
	Aaa	AA	2,043	0.43	2,060	0.46
	Aa1	AA	-	-	5,430	1.20
	Aa1	A	4,143	0.87	-	-
	Aa2	AAA	-	-	-	-
	Aa2	AA	11,866	2.50	6,650	1.47
	Aa3	AA	7,064	1.49	6,722	1.48
	Aa3	A	13,040	2.75	13,850	3.05
	A1	AA	8,107	1.71	15,485	3.41
	A1	A	22,731	4.80	21,098	4.65
	A2	AA	2,555	0.54	-	-
	A2	A	23,976	5.06	41,093	9.06
	A3	A	8,770	1.85	4,158	0.92
			104,295	22.00	189,095	41.70
Commercial paper	P-1	A-1	15,995	3.38	-	-
U.S. agency bonds	Aaa	AAA	20,017	4.22	40,180	8.86
U.S. Treasury notes***	Aaa	AAA	25,034	5.28	158,423	34.93
U.S. agency mortgage backed securities****	Aaa	AAA	97,296	20.53	4,540	1.00
Money market funds	Aaa	AAAm	96,287	20.32	-	-
Money market funds	Aaa	AAA	-	-	17,715	3.91
			$473,905	100 %	$453,518	100 %

* NR = Not Rated

** The securities were not in compliance with BTI Investment Policy at June 30, 2011 and/or 2010. 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, 2011 and 2010, the University's ownership represents 0.45% and 0.31%, 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 731 days. The following table provides information on the weighted average maturities for the various asset types in the WV Money Market Pool:

	2011		2010	
Security Type	**Carrying Value (In thousands)**	**WAM (Days)**	**Carrying Value (In thousands)**	**WAM (Days)**
Repurchase agreements	$ 84,357	1	$ 174,980	1
U.S. Treasury notes	298,345	137	65,153	140
U.S. Treasury bills	231,051	34	476,670	35
Commercial paper	1,069,576	35	855,844	18
Certificates of deposit	140,000	58	281,000	45
U.S. agency discount notes	697,164	45	606,048	52
Corporate bonds and notes	127,000	20	20,000	19
U.S. agency bonds/notes	170,788	66	246,990	55
Money market funds	200,279	1	150,026	1
	$3,018,560	46	$2,876,711	33

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 731 days. The following table provides information on the weighted average maturities for the various asset types in the WV Government Money Market Pool:

	2011		2010	
Security Type	**Carrying Value (In thousands)**	**WAM (Days)**	**Carrying Value (In thousands)**	**WAM (Days)**
Repurchase agreements	$ 98,400	1	$ 66,600	1
U.S. Treasury notes	45,811	131	8,526	114
U.S. Treasury bills			29,982	72
U.S. agency discount notes	60,852	74	36,465	115
U.S. agency bonds/notes	57,498	22	79,532	30
Money market funds	131	1	78	1
	$262,692	45	$221,183	44

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:

	2011		2010	
Security Type	**Carrying Value (in Thousands)**	**Effective Duration (Days)**	**Carrying Value (in Thousands)**	**Effective Duration (Days)**
U. S. Treasury bonds/notes	$ 25,034	227	$ 158,423	583
Commercial paper	15,995	55		
Corporate notes	104,295	234	189,095	560
Corporate asset backed securities	114,981	268	43,565	679
U.S. agency bonds/notes	20,017	85	40,180	288
U.S. agency mortgage backed securities	97,296	18	4,540	360
Money market funds	96,287	1	17,715	1
	$ 473,905	138	$ 453,518	530

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 $393,414 and $393,111 for the years ended

June 30, 2011 and 2010, 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.

Investments have been reported at fair value and categorized as Level 1, 2, or 3. Level 1 represents investments that have a quoted price in the active market. Level 2 represents investments with direct or indirect market inputs. Level 3 represents investments with no observable market. All investments held as of June 30, 2011 and 2010, are categorized as Level 1.

5. ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2011 and 2010, are as follows:

	2011	2010
Student tuition and fees — net of allowance for doubtful accounts of $306,978 and $251,315 in 2011 and 2010, respectively	$626,788	$453,125
Accrued interest receivable — the Commission	166	4,500
Other accrued interest receivable	-	1
Grants and contracts receivable	295,467	129,200
	$922,421	$586,826

6. CAPITAL ASSETS

Summary of capital assets transactions for the University as of June 30, 2011 and 2010, are as follows:

	2011			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 1,120,925	$ -	$ -	$ 1,120,925
Construction in progress	4,341,637	2,664,598	3,412,276	3,593,959
Total capital assets not being depreciated	$ 5,462,562	$ 2,664,598	$ 3,412,276	$ 4,714,884
Other capital assets:				
Land improvements	$ 2,391,063	$ 152,403	$ -	$ 2,543,466
Infrastructure	9,112,675	-	-	9,112,675
Buildings	139,733,016	4,414,195	-	144,147,211
Equipment	10,371,343	1,017,737	1,242,453	10,146,627
Library books	4,118,619	108,374	69,471	4,157,522
Total other capital assets	165,726,716	5,692,709	1,311,924	170,107,501
Less accumulated depreciation for:				
Land improvements	433,363	168,656	-	602,019
Infrastructure	2,997,208	576,764	-	3,573,972
Buildings	37,323,282	3,655,948	-	40,979,230
Equipment	6,141,752	1,107,775	1,151,851	6,097,676
Library books	3,386,150	167,259	69,470	3,483,939
Total accumulated depreciation	50,281,755	5,676,402	1,221,321	54,736,836
Other capital assets — net	$ 115,444,961	$ 16,307	$ 90,603	$ 115,370,665
Capital asset summary:				
Capital assets not being depreciated	$ 5,462,562	$ 2,664,598	$ 3,412,276	$ 4,714,884
Other capital assets	165,726,716	5,692,709	1,311,924	170,107,501
Total cost of capital assets	171,189,278	8,357,307	4,724,200	174,822,385
Less accumulated depreciation	50,281,755	5,676,402	1,221,321	54,736,836
Capital assets — net	$ 120,907,523	$ 2,680,905	$ 3,502,879	$ 120,085,549

	2010			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 1,120,925	$ -	$ -	$ 1,120,925
Construction in progress	1,137,415	5,083,282	1,879,060	4,341,637
Total capital assets not being depreciated	$ 2,258,340	$ 5,083,282	$ 1,879,060	$ 5,462,562
Other capital assets:				
Land improvements	$ 2,019,745	$ 371,318	$ -	$ 2,391,063
Infrastructure	9,112,675	-	-	9,112,675
Buildings	138,093,979	1,639,037	-	139,733,016
Equipment	9,790,250	855,945	274,852	10,371,343
Library books	4,025,814	132,706	39,901	4,118,619
Total other capital assets	163,042,463	2,999,006	314,753	165,726,716
Less accumulated depreciation for:				
Land improvements	279,808	153,555	-	433,363
Infrastructure	2,420,097	577,111	-	2,997,208
Buildings	33,812,003	3,511,279	-	37,323,282
Equipment	5,289,087	1,112,226	259,561	6,141,752
Library books	3,243,596	182,455	39,901	3,386,150
Total accumulated depreciation	45,044,591	5,536,626	299,462	50,281,755
Other capital assets — net	$ 117,997,872	$ (2,537,620)	$ 15,291	$ 115,444,961
Capital asset summary:				
Capital assets not being depreciated	$ 2,258,340	$ 5,083,282	$ 1,879,060	$ 5,462,562
Other capital assets	163,042,463	2,999,006	314,753	165,726,716
Total cost of capital assets	165,300,803	8,082,288	2,193,813	171,189,278
Less accumulated depreciation	45,044,591	5,536,626	299,462	50,281,755
Capital assets — net	$ 120,256,212	$ 2,545,662	$ 1,894,351	$ 120,907,523

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. As of June 30, 2011, $168,988 of such proceeds have been received. The West Virginia Development Office is responsible for repayment of the debt.

At June 30, 2011, the University had no significant outstanding contractual commitments for property, plant, and equipment.

7. LEASES

Future annual lease payments on capital leases for years subsequent to June 30, 2011, are as follows:

Years Ending June 30	Principal	Interest	Total
2012	$ 79,183	$ 7,431	$ 86,614
2013	81,429	5,185	86,614
2014	83,739	2,875	86,614
2015	57,141	602	57,743
Total	$ 301,492	$ 16,093	$ 317,585

The net book value of capital assets held under the capital lease as of June 30, 2011 and 2010, was $641,990 and $697,018, respectively.

8. LONG-TERM LIABILITIES

Summary of long-term obligation transactions for the University for the years ended June 30, 2011 and 2010, are as follows:

	2011				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and capital leases:					
Bonds payable	$ 48,747,210	$ -	$ 1,142,617	$ 47,604,593	$ 1,160,000
Capital lease obligations	378,492	-	77,000	301,492	79,183
Total bonds and capital leases	49,125,702	-	1,219,617	47,906,085	1,239,183
Other long-term liabilities:					
Advances from federal sponsors	588,192	3,553	-	591,745	-
Compensated absences	1,184,517	-	76,016	1,108,501	720,017
Other postemployment benefits liability	3,795,869	2,715,232	-	6,511,101	-
Debt obligation due to Commission	624,587	-	428,061	196,526	196,526
Total other long-term liabilities	6,193,165	2,718,785	504,077	8,407,873	916,543
Total long-term liabilities	$ 55,318,867	$ 2,718,785	$ 1,723,694	$ 56,313,958	$ 2,155,726

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

9. BONDS PAYABLE

Bonds payable as of June 30, 2011 and 2010, consisted of the following:

	Interest Rate	Annual Principal Installment Due	Principal Amount Outstanding	
			2011	2010
Student Fee Revenue Bonds, due through 2033	4.0%–5.125%	$105,000–370,000	$ 5,195,000	$ 5,320,000
Infrastructure Revenue Bonds, due through 2024	3.4%–4.5%	$125,000–240,000	2,445,000	2,590,000
Residence Facilities Revenue Bonds, due through 2035	3.63%–4.5%	$435,000–1,450,000	21,100,000	21,580,000
Wellness Center Facilities Revenue Bonds, due through 2037	3.75%–5.0%	$435,000–1,170,000	18,330,000	18,700,000
			47,070,000	48,190,000
Discount			(138,517)	(144,065)
Premium			673,110	701,275
			$ 47,604,593	$ 48,747,210

The Bonds are special obligations of the Board and are secured and payable from fees assessed to students of the University held under the Indenture. The Bonds shall not be deemed to be general obligations or a debt of the State within the meaning of the Constitution of the State and the credit or taxing power of the State or the University shall not be pledged therefore. The University has fixed and will maintain and collect fees from all students enrolled in the University to pay debt service.

Student Fee Revenue Bonds — In January 2003, $5,990,000 of Student Fee Revenue Bonds, Series 2003 (“Bonds”) were sold. The Bonds were issued under the authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended, and the Bonds are secured pursuant to the Indenture and Security Agreement dated as of January 1, 2003, by and between the Board and the trustee. The Bonds were issued to (1) finance the costs of planning, designing, acquiring equipment, and construction of certain capital improvements, including the Field House, the expansion and improvement of the Arts Center, a new parking lot, and other capital renovations, repairs, and improvements; (2) establishing of a debt service reserve fund; (3) establishing of a capitalized interest fund to pay interest on the Bonds due on December 1, 2003; and (4) paying the costs of issuance of the Bonds and related costs.

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

The debt service reserve fund must maintain deposits totaling $390,108 as required by the Indenture. Deposits in the debt service reserve funds totaled $393,414 and $393,111 as of June 30, 2011 and 2010, respectively.

For both the years ended June 30, 2011 and 2010, 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, 2011 and 2010, 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, 2011 and 2010, 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, 2011 and 2010, 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, 2011 and 2010, net revenues when combined with other monies legally available for payment of debt service were in excess of the maximum annual debt service.

Wellness Center Revenue Bonds — In October 2007, $20,090,000 of revenue bonds (Shepherd University Wellness Center Projects (the “Project”) Series 2007 (the “Bonds”) were sold. The Bonds were issued under the authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended and the Bonds are secured pursuant to the Indenture and Security Agreement dated as of October 30, 2007, by and between the Board and the Trustee. The Bonds were issued to finance the costs of planning, design, acquisition, construction, and equipping of a new wellness center on the University’s campus and other capital improvements for use by the University.

The Bonds consist of $4,310,000 Serial Bonds with varying interest rates from 3.43% to 3.95%, and mature serially from June 1, 2008 to June 1, 2017. Term Bonds of $2,710,000, $3,425,000, $4,280,000, and $5,365,000 bear varying interest rates from 4.32% to 4.77% and mature June 1, 2022, June 1, 2027, June 1, 2032, and June 1, 2037, respectively. Term Bonds maturing on June 1, 2022, are subject to mandatory redemption prior to maturity from June 1, 2018 through 2022. Term Bonds maturing on June 1, 2027, are subject to mandatory redemption prior to maturity from June 1, 2023 through 2027. Term Bonds maturing on June 1, 2032, are subject to mandatory redemption prior to maturity from June 1, 2028 through 2032. Term Bonds maturing on June 1, 2037, are subject to mandatory redemption prior to maturity from June 1, 2033 through 2037. The redemption prices are 100% of the principal amount, plus accrued interest. The Bonds are subject to an extraordinary optional redemption on any date at a redemption price of 100% of the principal amount, plus accrued interest from unexpended Bond proceeds deposited in the Redemption Fund or any condemnation awards or insurance proceeds that are not used to repair, rebuild, or rearrange the Project in the event of any damage to or destruction of the Project or any condemnation of title to or the use of the Project.

The Bonds maturing on and after June 1, 2022, are subject to redemption prior to maturity on or after December 1, 2017, at the option of the Board, in whole at any time or in part on any interest payment date, at par, plus accrued interest to the date fixed for redemption.

Beginning in the fall 2008 semester, student fees and revenues collected from the new facilities are used to operate the facility, and with other sources of revenues identified in the pledge, pay debt service. Gross operating revenues shall at all times be sufficient to provide pledged revenues each fiscal year. The fees shall at all times be sufficient to provide pledged revenues, when combined with other monies legally available to be used for such purpose, each fiscal year equal to at least 100% of maximum annual debt service. During the years ended June 30, 2011 and 2010, 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, 2011, are as follows:

Years Ending June 30	2003 Bonds Principal	2003 Bonds Interest	2004 Bonds Principal	2004 Bonds Interest
2012	$ 130,000	$ 256,412	$ 150,000	$ 101,000
2013	135,000	251,045	155,000	95,900
2014	140,000	245,338	160,000	90,475
2015	145,000	239,280	165,000	84,675
2016	150,000	232,825	170,000	78,075
2017–2021	880,000	1,041,564	960,000	281,975
2022–2026	1,125,000	787,080	685,000	62,550
2027–2031	1,435,000	461,122	-	-
2032-2036	1,055,000	82,896	-	-
2037	-	-	-	-
Total	$ 5,195,000	$ 3,597,562	$ 2,445,000	$ 794,650

Years Ending June 30	2005 Bonds Principal	2005 Bonds Interest	2007 Bonds Principal	2007 Bonds Interest
2012	$ 495,000	$ 1,029,631	$ 385,000	$ 837,763
2013	515,000	1,011,688	400,000	822,363
2014	530,000	992,375	415,000	807,363
2015	550,000	972,500	430,000	791,800
2016	575,000	950,500	450,000	770,300
2017–2021	3,340,000	4,291,000	2,585,000	3,511,800
2020–2026	4,255,000	3,368,750	3,275,000	2,823,100
2027–2031	5,435,000	2,193,000	4,090,000	2,007,244
2032–2036	5,405,000	692,000	5,130,000	977,669
2037	-	-	1,170,000	52,650
Total	$ 21,100,000	$ 15,501,444	$ 18,330,000	$ 13,402,052

Years Ending June 30	Total Principal	Total Interest
2012	$ 1,160,000	$ 2,224,806
2013	1,205,000	2,180,996
2014	1,245,000	2,135,551
2015	1,290,000	2,088,255
2016	1,345,000	2,031,700
2017–2021	7,765,000	9,126,339
2022–2026	9,340,000	7,041,480
2027–2031	10,960,000	4,661,366
2032–2036	11,590,000	1,752,565
2037	1,170,000	52,650
Total	$ 47,070,000	$ 33,295,708

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, 2011 and 2010, the noncurrent liability related to OPEB costs was $6,511,101 and $3,795,869, respectively. 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, and $3,497,507 and $595,117, respectively, during 2010. As of and for the years ended June 30, 2011 and 2010, there were 35 and 30 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, 2011, 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, 2011, the University has recognized approximately $1.3 million of the total amount authorized.

Debt services assessed as of June 30, 2011 and 2010, are as follows:

	2011	2010
Principal	$ 428,061	$ 412,944
Interest	23,913	44,561
Other	95,410	95,821
	$ 547,384	$ 553,326

12. UNRESTRICTED NET ASSETS

The University did not have any designated unrestricted net assets as of June 30, 2011 or 2010.

	2011	2010
Total unrestricted net assets before OPEB liability	$ 13,302,950	$ 12,529,003
Less OPEB liability	6,511,101	3,795,869
Total unrestricted net assets	$ 6,791,849	$ 8,733,134

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, 2011 and 2010, 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, 2011 and 2010. Required employee contributions were at the rate of 6% of total annual salary for the years ended June 30, 2011 and 2010. 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, 2011, 2010, and 2009, were $129,622, $135,382, and $132,723, respectively, which consisted of $89,100, $93,249, and $91,386 from the

University in 2011, 2010, and 2009, respectively, and $40,522, $42,133, and $41,337, from the covered employees in 2011, 2010, and 2009, 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, 2011, 2010, and 2009, were $2,294,276, $2,254,392, and $2,050,336, respectively, which consisted of equal contributions from the University and covered employees in 2011, 2010, and 2009 of $1,147,138, $1,127,196, and $1,025,168, respectively.

Total contributions to the Great West for the years ended June 30, 2011, 2010, and 2009, were $47,364, $28,651, and $2,858, respectively, which consisted of equal contributions from the University and the covered employee in 2011, 2010, and 2009 of $23,682, $14,326, and $1,429, respectively.

The University's total payroll for the years ended June 30, 2011 and 2010, was $24,446,284 and $23,921,709, respectively, and total covered employees' salaries in the STRS, TIAA-CREF, and Great West were $675,370, $19,118,974, and $394,701 in 2011, and $702,231, $18,786,601, and $238,763 in 2010, 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, 2011 and 2010, the Foundation's net assets (including unrealized gains) totaled $22,932,566 and $21,246,377, 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, 2011 and 2010, the Foundation contributed $753,509 and $757,140, 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. CONTINGENCIES

The nature of the educational industry is such that, from time to time, claims will be presented against the University on account of alleged negligence, acts of discrimination, breach of contract, or disagreements arising from the interpretation of laws or regulations. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational services in a higher education system. In the opinion of management, all known claims are covered by insurance or are such that an award against the University would not have a significant financial impact on the financial position of the University.

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

The Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates. There are no arbitrage rebate liabilities that have been recorded in the combined financial statements as of June 30, 2011 or 2010.

The University owns various buildings that are known to contain asbestos. The University is not required by federal, state, or local law to remove the asbestos from its buildings. The University is required under federal environmental, health, and safety regulations to manage the presence of asbestos in its buildings in a safe condition. The University addresses its responsibility to manage the presence of asbestos in its buildings on a case-by-case basis. Significant problems of dangerous asbestos conditions are abated as the condition becomes known. The University also addresses the presence of asbestos as building renovation or demolition projects are undertaken and through asbestos operation and maintenance programs directed at containing, managing, or operating with the asbestos in a safe condition.

17. SEGMENT INFORMATION

In January 2003, $5,990,000 of Student Fee revenue bonds, Series 2003 (the "Bonds") were sold. The Bonds were issued under the authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended and the Bonds are secured pursuant to the Indenture and Security Agreement dated as of January 1, 2003, by and between the Board and the Trustee. The Bonds were issued to (1) finance the costs of planning, designing, acquiring equipment, and constructing of certain capital improvements, including the Field House, the expansion and improvement of the Arts Center, a new parking lot, and other capital renovations, repairs, and improvements; (2) establish a debt service reserve fund; (3) establish a capitalized interest fund to pay interest on the Bonds due on December 1, 2003; and (4) pay the costs of issuance of the Bonds and related costs.

In September 2004, $3,405,000 of Infrastructure revenue bonds, Series 2004 (the "Bonds") were sold. The Bonds were issued under the authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended, and the Bonds are secured pursuant to the Indenture and Security Agreement dated as of January 1, 2003, by and between the Board and the Trustee. The Bonds were issued to finance the costs of planning, design, acquisition, construction, and equipping of certain capital improvements for the University, including certain roads, water, and sewer system expansion, extensions, and improvements and other infrastructure projects on the West Campus of the University, and other capital renovations and improvements to the University's campus, and to pay the costs of issuance of the Bonds and related costs.

In May 2005, $22,925,000 of revenue bonds (Shepherd University Residence Facilities Projects), Series 2003 were sold. The Bonds were issued under the authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended, and the Bonds are secured pursuant to the Indenture and Security Agreement dated as of May 24, 2005, by and between the Board and the Trustee. The Bonds were issued to finance the costs of planning, design, acquisition, construction, and equipping of a 300-bed apartment style residence complex on the West Campus of the University; fund capitalized interest on the Series 2005 Bonds to January 1, 2007; refund the Issuer's $1,865,000 University Facilities Revenue Notes, Series 2004A, which were issued to finance temporarily a portion of the costs of planning design, acquisition, construction, and equipping of certain renovations and improvements to Shaw Hall and Thacher Hall and other capital renovations and improvements to the University's residence facilities pending issuance of the Series 2005 Bonds; and pay the costs of issuance of the Series 2005 Bonds.

In October 2007, $20,090,000 of Wellness Center revenue bonds, Series 2007 (the "Bonds") were sold. The Bonds were issued under the authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended, and the Bonds are secured pursuant to the Indenture and Security Agreement dated as of October 30, 2007, by and between the Board and the Trustee. The Bonds were issued to finance the costs of planning, design, acquisition, construction, and equipping of a new wellness center on the University's campus and other capital improvements for use by Shepherd University; and to pay the costs of issuance of the Bonds and related costs.

Condensed statements of net assets as of June 30, 2011 and 2010:

	Student Fee Revenue Bonds 2003		Infrastructure Revenue Bonds 2004		Residence Facilities Projects Revenue Bonds 2005		Wellness Center Revenue Bonds 2007	
	2011	2010	2011	2010	2011	2010	2011	2010
Assets:								
Current assets	$ 1,200,756	$ 1,102,079	$ 474,395	$ 389,494	$ 6,810,370	$ 6,566,333	$ 758,700	$ 672,312
Noncurrent assets	4,235,727	4,404,024	2,390,251	2,625,593	21,144,599	21,750,626	19,276,723	19,781,597
Total assets	$ 5,436,483	$ 5,506,103	$2,864,646	$3,015,087	$27,954,969	$28,316,959	$20,035,423	$20,453,909
Liabilities								
Current liabilities	$ 151,584	$ 147,001	$ 158,417	$ 153,803	$ 1,195,741	$ 1,635,615	$ 521,382	$ 516,324
Noncurrent liabilities	5,030,859	5,160,859	2,294,590	2,444,590	21,500,419	22,102,768	17,835,478	18,220,478
Total liabilities	5,182,443	5,307,860	2,453,007	2,598,393	22,696,160	23,738,383	18,356,860	18,736,802
Net (deficit) assets:								
Invested in capital assets — net of related debt	(1,478,107)	(1,435,329)	(124,006)	(38,950)	(1,286,132)	(1,280,224)	710,080	831,760
Restricted:								
Debt service	531,391	531,495	61,250	66,149	270,326	283,880	276,351	288,311
Capital projects	-	-	-	-	-	-	-	-
Unrestricted	1,200,756	1,102,077	474,395	389,495	6,274,615	5,574,920	692,132	597,036
Total net assets	254,040	198,243	411,639	416,694	5,258,809	4,578,576	1,678,563	1,717,107
Total net assets and liabilities	$ 5,436,483	$ 5,506,103	$2,864,646	$3,015,087	$27,954,969	$28,316,959	$20,035,423	$20,453,909

Condensed statements of revenues, expenses, and changes in net assets for the years ended June 30, 2011 and 2010:

	Student Fee Revenue Bonds 2003		Infrastructure Revenue Bonds 2004		Residence Facilities Projects Revenue Bonds 2005		Wellness Center Revenue Bonds 2007	
	2011	2010	2011	2010	2011	2010	2011	2010
Operating:								
Operating revenues	$ 469,552	$ 458,088	$ 335,487	$ 329,045	$ 15,438,877	$ 14,608,087	$ 2,454,318	$ 2,367,466
Operating expenses	(171,785)	(173,297)	(235,355)	(235,381)	(13,745,030)	(13,240,274)	(1,628,580)	(1,812,027)
Net operating income	297,767	284,791	100,132	93,664	1,693,847	1,367,813	825,738	555,439
Nonoperating:								
Nonoperating revenues	19,125	12,592	66	33	12,677	15,543	196	379
Nonoperating expenses	(261,095)	(265,653)	(105,253)	(109,490)	(1,026,291)	(1,044,763)	(864,472)	(881,101)
Net nonoperating loss	(241,970)	(253,061)	(105,187)	(109,457)	(1,013,614)	(1,029,220)	(864,276)	(880,722)
Increase (decrease) in net assets	55,797	31,730	(5,055)	(15,793)	680,233	338,593	(38,538)	(325,283)
Net assets — beginning of year	198,243	166,513	416,694	432,487	4,578,576	4,239,983	1,717,101	2,042,384
Net assets — end of year	$ 254,040	$ 198,243	$ 411,639	$ 416,694	$ 5,258,809	$ 4,578,576	$ 1,678,563	$ 1,717,101

Condensed statements of cash flows for the years ended June 30, 2011 and 2010:

	Student Fee Revenue Bonds 2003		Infrastructure Revenue Bonds 2004		Residence Facilities Projects Revenue Bonds 2005		Wellness Center Revenue Bonds 2007	
	2011	2010	2011	2010	2011	2010	2011	2010
Net cash provided by operating activities	$ 468,212	$ 458,342	$ 334,023	$ 329,365	$ 2,780,851	$ 2,010,665	$ 1,309,724	$ 1,242,027
Net cash used in capital and related financing	(631,917)	(608,130)	(250,566)	(240,407)	(3,162,459)	(3,493,688)	(2,511,167)	(2,105,500)
Net cash provided by investing activities	261,099	265,652	-	-	1,057,456	1,079,077	1,279,058	863,952
Increase (decrease) in cash and cash equivalents	97,394	115,864	83,457	88,958	675,848	(403,946)	77,615	479
Cash and cash equivalents — beginning of year	1,098,080	982,216	384,472	295,514	5,363,850	5,767,796	654,595	654,116
Cash and cash equivalents — end of year	$1,195,474	$1,098,080	$ 467,929	$ 384,472	$ 6,039,698	$ 5,363,850	$ 732,210	$ 654,595

18. COMPONENT UNIT'S DISCLOSURES

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

Permanently Restricted Net Assets — Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes. Restrictions are to provide assistance and support for the students, facilities and programs of Shepherd University.

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

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

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

Advertising — Advertising costs are expensed as incurred and amounted to $2,015 and $2,765 for the years ended June 30, 2011 and 2010, respectively.

Property and Equipment — Purchased assets are recorded at cost. Donated assets retained by the Foundation are recorded at their current or appraised value at the date they are donated. Expenditures for replaced items in the amount of $300 or more are capitalized and the replaced items are retired. Maintenance and repairs are expensed as incurred. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets as follows:

	Years
Equipment	3–7
Building and improvements	40

Contributions — Contributions, including unconditional promises to give, are recognized as revenue in the period received. All contributions are available for unrestricted use unless specifically restricted by the donor. Bequests are recorded as revenue at the time an unassailable right to the gift has been established and the proceeds are measurable. Non-cash contributions received that are retained or passed through to Shepherd University are recorded at their current or appraised value at the date they are contributed.

Functional Allocation of Expenses — The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services based upon management's judgment and past experience.

Tax Exempt Status — The Internal Revenue Service has determined that the Foundation is an organization described in Section 501(c)(3) of the Internal Revenue Code and is therefore exempt from federal income tax.

The Foundation follows the FASB Accounting Standards Codification, which provides guidance on accounting for uncertainty in income taxes recognized in an enterprise's financial statements. As of June 30, 2011 and June 30, 2010, the Foundation had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Generally, the tax years before 2008 are no longer subject to examination by federal, state or local taxing authorities.

Use of Estimates in the Preparation of Financial Statements — The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of Credit Risk — In the course of conducting its activities the Foundation encourages alumni, local businesses and the general public to support its purposes by regularly soliciting contributions. Many of the contributors pledge their support over several years in the form of pledges. Pledges that are legally enforceable represent extensions of credit by the Foundation to its donors.

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

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

B. PLEDGES RECEIVABLE

Pledges receivable represent amounts due to the Foundation for legally enforceable pledges. These pledges are payable in full or in part through June 30, 2016.

Pledges receivable as of June 30, 2011 and 2010 are temporarily restricted net assets. These unconditional promises to give are scheduled to be received by the Foundation over the next several years, and are considered to be fully collectible.

	2011	2010
Receivable in less than one year	$ 306,692	$ 586,295
Receivable in one to five years	315,137	501,346
Total pledges receivable	621,829	1,087,641
Less discount to net present value	(35,354)	(37,898)
Net pledges receivable	$ 586,475	$ 1,049,743

C. INVESTMENTS

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

Investment securities at June 30, 2011 and 2010 are composed of the following:

Description	2011 Cost	2011 Market
Certificates of deposit	$ 1,166,816	$ 1,166,816
U. S. government securities	8,285,120	9,268,501
Corporate bonds and notes	1,057,945	1,070,897
Common stocks	10,174,191	11,799,023
Investment securities	$ 20,684,072	$ 23,305,237

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

At June 30, 2011 and 2010, there was $1,042,770 and $1,137,184, respectively, of cash and cash equivalents held in the brokerage accounts available to be invested by the Foundation.

The investment in real estate is comprised of the following:

Description	2011 Cost	2011 Accumulated Depreciation	2011 Net Book Value
Land	$ 133,000	$ -	$ 133,000
Building	160,202	63,413	96,789
	$ 293,202	$ 63,413	$ 229,789

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

The following is a summary of the Foundation's investments at June 30, 2011 and 2010:

	2011	
Description	**Cost**	**Market**
Investment securities	$20,684,072	$23,305,237
Real estate	293,202	229,789
	$20,977,274	$23,535,026

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

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.

D. EQUIPMENT

Equipment consists of the following:

	2011	**2010**
Office equipment (at cost)	$ 20,029	$ 18,028
Accumulated depreciation	(15,958)	(13,630)
Net book value	$ 4,071	$ 4,398

E. CUSTODIAL LIABILITIES

The gross receipts and disbursements for the custodial accounts, the interest earned, gains on investments, and the net transfers to/from the custodial accounts for the years ended June 30, 2011 and 2010 are as follows:

	2011	**2010**
Custodial receipts	$ 674,680	$ 407,119
Custodial payments	(783,041)	(453,681)
Interest and gains on investments	106,032	154,848
Net increase (decrease) in custodial liabilities	$ (2,329)	$ 108,286

F. GIFT ANNUITIES

Gift annuities payable consist of the following liabilities:

	2011	2010
Daniel and Orpha Cowgill Annuity	$ 35,841	$ 37,793
James K. Wright, Jr. Annuity	33,417	36,198
Benjamin and Mary Lou Mehrling Annuity	4,567	4,801
James K. and Gladys L. Wright Annuity	15,230	16,106
Jack and Pat Egle Annuity	32,862	33,994
MEO Annuity	64,832	66,134
Total	$ 186,749	$ 195,026

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

G. EMPLOYEE PENSION PLAN

The Foundation participates in the TIAA — CREF retirement plan. The Foundation contributes to the plan based on a dollar for dollar match of the contributions of full time employees up to 6%. The cost recognized during the years ended June 30, 2011 and 2010 was $6,300 and $8,149, respectively.

H. CONDITIONAL PROMISES TO GIVE

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

I. CONCENTRATION OF CREDIT RISK

The Foundation places the majority of its demand deposits with one bank and at the current time does not limit the daily cash balances to the federally insured limits. From time to time during 2011 and 2010, the Foundation’s bank account balances exceeded the federally insured limit. Management has evaluated this risk and considers it to be a normal business risk.

J. RELATED PARTY

The Foundation is a component unit of Shepherd University (University). The Foundation utilizes space owned by the University but does not pay rent. In-kind revenue and expense of $12,600 has been recorded for the use of this space for the years ended June 30, 2011 and 2010, respectively.

K. FAIR VALUE MEASUREMENTS

Accounting Standards Codification (ASC) 820, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

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

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

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

Fair value of assets measured on a recurring basis at June 30, 2011 and 2010 are as follows:

June 30, 2011	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
US Large Cap	$ 5,417,693	$ 4,450,808	$ -	$ 966,885
US Small and Mid-Cap	2,848,599	2,848,599	-	-
REITs	399,830	399,830	-	-
International equity	2,307,190	2,307,190	-	-
Commodities	592,362	592,362	-	-
Domestic fixed income	10,115,975	10,115,975	-	-
International fixed income	456,772	456,772	-	-
	$22,138,421	$21,171,536	$ -	$ 966,885

June 30, 2010	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
US Large Cap	$ 4,596,386	$ 3,682,716	$ -	$ 913,670
US Small and Mid-Cap	2,223,793	2,223,793	-	-
REITs	452,617	452,617	-	-
International equity	1,881,890	1,881,890	-	-
Commodities	347,420	347,420	-	-
Domestic fixed income	10,228,603	10,228,603	-	-
International fixed income	432,204	432,204	-	-
	$ 20,162,913	$ 19,249,243	$ -	$ 913,670

The fair values of Shepherd University Foundation's assets are measured using different techniques. The fair value for the investments noted above is determined by reference to quoted market prices, other relevant information available generated by market transactions, 3rd party valuations, and estimated pricing models or discounted cash flows.

Total realized gain (loss) for the investments noted above that is included in the change in net assets at June 30, 2011 and 2010 was $207,239 and $117,735, respectively. The unrealized gain (loss) for the investments noted above included in the change in net assets at June 30, 2011 and 2010 was $2,119,161 and $616,366.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) consist of funds invested in Collins Capital Low Volatility Performance Fund II, Ltd., which is a speculative fund of funds. The changes in Level 3 assets are as follows for the year ended June 30, 2011:

Fair value as of July 1, 2009	$ 837,493
Unrealized gain on mutual funds	76,177
Fair value as of June 30, 2010	913,670
Unrealized gain on mutual funds	53,215
Fair value as of June 30, 2011	$ 966,885

L. ENDOWMENTS

The Foundation's endowments consist of individual funds established to provide investment income for the Foundation's operations. The endowments include both donor-restricted endowment funds and funds designated by the Foundation to function as an endowment. Net assets associated with endowment funds, including funds designated by the Foundation to function as endowments, are classified and reported as permanently restricted net assets based on the donor-imposed restrictions. The classification is based on the board's interpretation of West Virginia's statutes that govern such endowments and its interpretations of donor intent and the related endowment bylaws.

The Foundation considers several factors when making a determination to appropriate or accumulate donor-restricted endowment funds. These factors include the duration and preservation of the fund, the mission of the Foundation, the purpose of any donor-restrictions, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, and other resources.

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

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

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

Endowment net assets consisted of the following as of June 30, 2011 and 2010:

	2011	2010
Board designated endowment funds	$ 143,995	$ 142,420
Donor permanently restricted endowment funds	20,434,445	19,931,274
	$ 20,578,440	$ 20,073,694

The changes in endowment net assets for the years ended June 30, 2011 and 2010 were as follows:

Endowment net assets at July 1, 2009	$18,414,728
Investment return:	
Investment income	18,400
Net appreciation	
Total investment return	18,400
Contributions	1,642,449
Transfers	(1,883)
Endowment net assets at June 30, 2010	20,073,694
Investment return:	
Investment income	18,357
Net appreciation	
Total investment return	18,357
Contributions	493,810
Transfers	(7,421)
Endowment net assets at June 30, 2011	$20,578,440

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are included in unrestricted net assets were approximately $598,000 as of June 30, 2010. These deficiencies resulted from unfavorable market fluctuations during the past several years. As of June 30, 2011 there were no deficiencies of this nature.

M. SUBSEQUENT EVENTS

The Foundation has evaluated events and transactions subsequent to June 30, 2011 through September 1, 2011, 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, 2011 and through September 1, 2011, that require recognition or disclosure in the financial statements.

19. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2011 and 2010, the following represents operating expenses within both natural and functional classifications:

2011	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Fees Assessed by the Commission	Total
Instruction	$ 11,212,108	$ 3,901,892	$ 1,225,993	$ 251	$ -	$ -	$ -	$ 16,340,244
Research	3,096	490	667	-	-	-	-	4,253
Public service	88,089	30,177	99,998	426	-	-	-	218,690
Academic support	1,929,737	714,273	1,306,243	1,580	-	-	-	3,951,833
Student services	2,150,079	876,130	1,248,199	856	-	-	-	4,275,264
General institutional support	2,693,003	145,343	1,515,559	2,149	-	-	-	4,356,054
Operations and maintenance of plant	1,660,748	729,934	1,156,988	1,640,526	-	-	-	5,188,196
Student financial aid	-	-	-	-	2,671,602	-	-	2,671,602
Auxiliary enterprises	4,834,063	1,651,307	6,211,636	1,590,460	-	-	-	14,287,466
Depreciation	-	-	-	-	-	5,676,402	-	5,676,402
Other	-	-	-	-	113	-	305,744	305,857
Total	$ 24,570,923	$ 8,049,546	$ 12,765,283	$ 3,236,248	$ 2,671,715	$ 5,676,402	$ 305,744	$ 57,275,861

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

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

To the Governing Board of
Shepherd University:

We have audited the combined financial statements of Shepherd University (the "University") as of and for the year ended June 30, 2011, and have issued our report thereon dated October 31, 2011, which states reliance on other auditors for the discretely presented component unit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The University's discretely presented component unit was audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the University is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal controls, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our considerations of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's combined financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of the Shepherd University Governing Board, managements of the University and the West Virginia Higher Education Policy Commission, federal and state awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Deloitte & Touche LLP

October 31, 2011