

Shepherd University

Financial Statements as of and for the Years Ended
June 30, 2015 and 2014, and Independent Auditors'
Reports

SHEPHERD UNIVERSITY

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (RSI) (UNAUDITED)	3-10
FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2015 AND 2014:	
Statements of Net Position	11-12
Statements of Revenues, Expenses, and Changes in Net Position	13-14
Statements of Cash Flows	15-16
Component Unit — Statements of Financial Position	17
Component Unit — Statements of Activities	18-19
Notes to Financial Statements	20-62
Required Supplementary Information	63
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 <i>GOVERNMENT AUDITING STANDARDS</i>	64-65
Schedule of Findings	66

INDEPENDENT AUDITORS' REPORT

To the Governing Board
Shepherd University
Shepherdstown, West Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Shepherd University (the University) (a component unit of the State of West Virginia), as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these 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, which represent 100% of the assets, revenues and net assets of the discretely component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

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

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

Opinions

In our opinion, based on our report and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the University as of June 30, 2015 and 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

During fiscal year ended June 30, 2015, the University adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the related GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. As a result of the implementation of these standards, the University reported a restatement for the change in accounting principle (see Note 2.) Our auditors’ opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis on pages 3 - 10 and the Schedule of Proportionate Share of Net Pension Liability and Contributions on page 63, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2016, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University’s internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Baltimore, Maryland
February 2, 2016

Shepherd University

Management Discussion and Analysis

Fiscal Years 2015 and 2014

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 began its doctoral program in Nursing Practice in fall of 2015. 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 2015 data compared to the financial statements presented for fiscal year 2014. There are three financial statements presented: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. This discussion and analysis of the University’s financial statements provides an overview of its financial activities for the year and its required supplemental information.

Statement of Net Position

The Statement of Net Position presents end-of-year data concerning assets (current and noncurrent), deferred outflow of resources, liabilities (current and noncurrent), deferred inflow of resources and net position (assets and deferred outflows of resources minus liabilities and deferred inflows of resources) of the University as of June 30, 2015, and 2014. The difference between current and noncurrent assets and liabilities are discussed in the footnotes to the financial statements.

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors and lending institutions. Finally, the Statement of Net Position provides a picture of net position and the availability of carry over funds for use by the University in future years.

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

on the use of the assets. The third category is unrestricted net position. Unrestricted net position is available for any lawful purpose of the institution.

Condensed Schedules of Net Position

(In thousands)

	June 30		
	2015	2014	2013
Assets:			
Cash	\$ 17,879	\$ 16,213	\$ 16,680
Other Current Assets	1,456	1,465	1,246
Noncurrent Assets	132,102	135,387	137,869
Total Assets	151,437	153,065	155,795
Total Deferred Outflows of Resources	43	-	-
Total Assets and Deferred Outflow of Resources	151,480	153,065	155,795
Liabilities:			
Current Liabilities	8,160	7,166	9,250
Noncurrent Liabilities	53,260	53,810	54,584
Total Liabilities	61,420	60,976	63,834
Total Deferred Inflows of Resources	235	-	-
Net Position:			
Net Investment in Capital Assets	88,289	90,372	91,864
Restricted - Expendable	322	199	577
Unrestricted	1,214	1,518	(480)
Total Net Position	\$ 89,825	\$ 92,089	\$ 91,961

Assets

Total Assets decreased approximately one percent to \$151.4 million compared to \$153.1 million for 2014. However, within current assets, cash increased by approximately \$1.66 million from the previous year. The increase in cash is primarily due to the increase in current liabilities as a result of the conversion to the state's new financial system, (OASIS). In 2014, all June invoices were paid in June. In 2015, all June invoices were paid in July of 2015.

The majority of non-current assets are comprised of capital assets. These assets are reported net of accumulated depreciation. The University's annual investment in capital projects and equipment can significantly impact the value of non-current assets from year to year. With no large capital projects undertaken by the University in 2015 to offset accumulated depreciation, non-current assets decreased by \$3.3 million compared to 2014.

The net result of fiscal year 2015 activities resulted in a \$1.6 million decrease in total assets.

Deferred Outflows of Resources:

Deferred outflows of resources are the consumption of net position by the University that are applicable to future years. In 2015, the University had deferred outflows of resources related to pensions of \$42,953 as a direct result of the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pension*. This deferred outflows of resources directly relate to the required contributions the University has made on behalf of employee enrolled in the defined benefit pension plan.

Liabilities:

Liabilities include but are not limited to accounts payable, accrued liabilities, unearned revenues, bond payable and other post-employment benefits (OPEB) liability. Total liabilities remained consistent from 2014 to 2015. . However, there were significant changes in the components that encompass liabilities:

Significant changes include:

- Accounts payable increased by \$1M from 2014 to 2015 because of the conversion to the State's new financial system.
- In 2015 the University converted approximately 100 employees onto an arrears pay schedule resulting in an increase in accrued liabilities of \$180,000 from 2014 to 2015.
- Unearned revenue decreased due to a change in the advisement and registration schedule resulting in the recognition of fee revenue from this activity in the same year it took place.
- An increase in the OPEB liability of \$572,000 due to an updated actuary study by the state. The state has established the West Virginia Retirees Health Benefit Trust Fund which will be used to eliminate the liability over time.
- A decrease in bonds payable of \$1.4 million resulting from bond premium payments.
- A decrease in lease payable of \$195,000 from 2014 to 2015 primarily due to the pay-off of the capital lease for the Ram Stadium Field Turf project.

Deferred Inflows of Resources:

Deferred inflows of resources are the acquisitions of net position by the University that are applicable to future years. In 2015, the University had deferred inflows of resources related to pensions of \$234,570, as a direct result of the implementation of GASB Statement No. 68.

Net Position

From 2014 to 2015 total net position decreased by \$2.3 million. During the year, net investment in capital assets – net of related debt decreased approximately \$2.1 million. This reflects the University's significant reduction in investments in capital assets over the last two years. Unrestricted net position overall decreased slightly by \$303,560 as a result of the implementation of GASB No. 68 to record the unfunded pension liabilities.

Statement of Revenues, Expenses, and Changes in Net Position

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

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

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

(In thousands)

	FY 2015	FY 2014	FY 2013
Operating Revenues	\$ 43,174	\$ 43,863	\$ 42,821
Operating Expenses	<u>59,427</u>	<u>59,339</u>	<u>58,609</u>
Operating Loss	(16,253)	(15,476)	(15,788)
Nonoperating Revenues - Net	<u>14,684</u>	<u>14,512</u>	<u>15,555</u>
Loss before Other Revenues, Expenses, Gains or Losses	(1,569)	(964)	(233)
Capital and Bond Proceeds from Commission	-	-	6,112
Capital and Bond Proceeds from State	1	1,092	2,027
Private Capital Grants and Gifts	<u>-</u>	<u>-</u>	<u>1,964</u>
Increase (Decrease) in Net Position	(1,568)	128	9,870
Net Position - Beginning of Year	92,089	91,961	82,091
Cummulative effect of change in accounting principle	<u>(695)</u>	<u>-</u>	<u>-</u>
Net Position - Beginning of Year, restated	<u>91,394</u>	<u>91,961</u>	<u>82,091</u>
Net Position - End of Year	<u>\$ 89,825</u>	<u>\$ 92,089</u>	<u>\$ 91,961</u>

Operating Revenues:

Operating revenues consist of student tuition and fees, contracts and grants, interest on student loans receivable, sales and services of educational activities, auxiliary enterprise revenue and other operating revenues. Total operating revenues for 2015 decreased by \$689,260 or 1.6 percent.

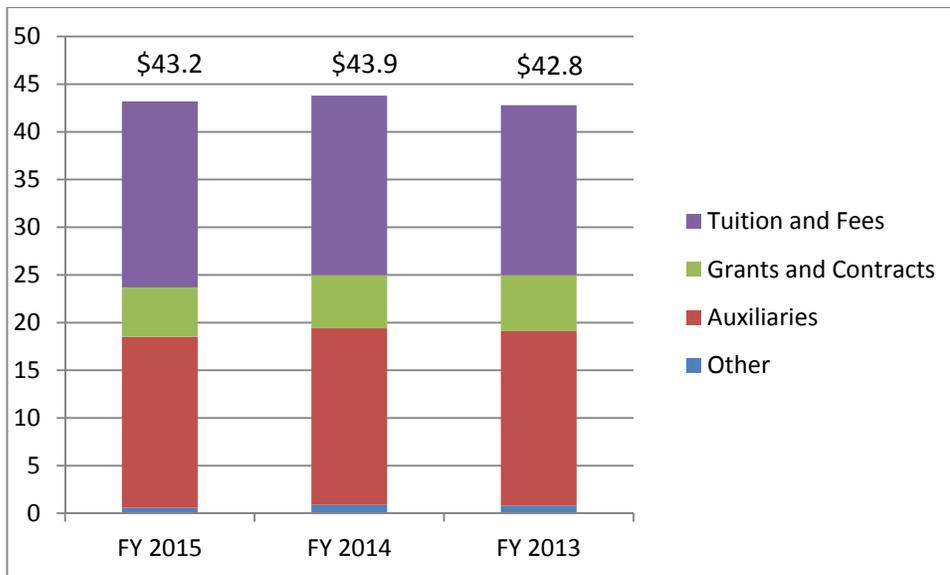
During fiscal year 2015, student tuition and fees revenue increased from 2014 by \$477,263 or 2.5 percent due to a combination of a 5.0 percent tuition increase and a 4.3 enrollment shortfall. Overall, student tuition and fees as a percentage of total operating revenues increased from 43.4 to 45.2 percent.

Grants and contracts comprise approximately 11.7 percent of the operating revenues and total \$5.12million in 2015. This is a \$461,522 decrease from 2014, which is a result of two federal grants expiring in 2014.

Auxiliary enterprise revenue, which includes resources generated by the operation of the bookstore, wellness center, dining services and residence halls, experienced a decrease of \$588,369 or 3.2 percent in 2015. The decrease is attributed to the enrollment shortfall experience throughout the year.

Operating Revenues –FY 2015-2013

(In millions)



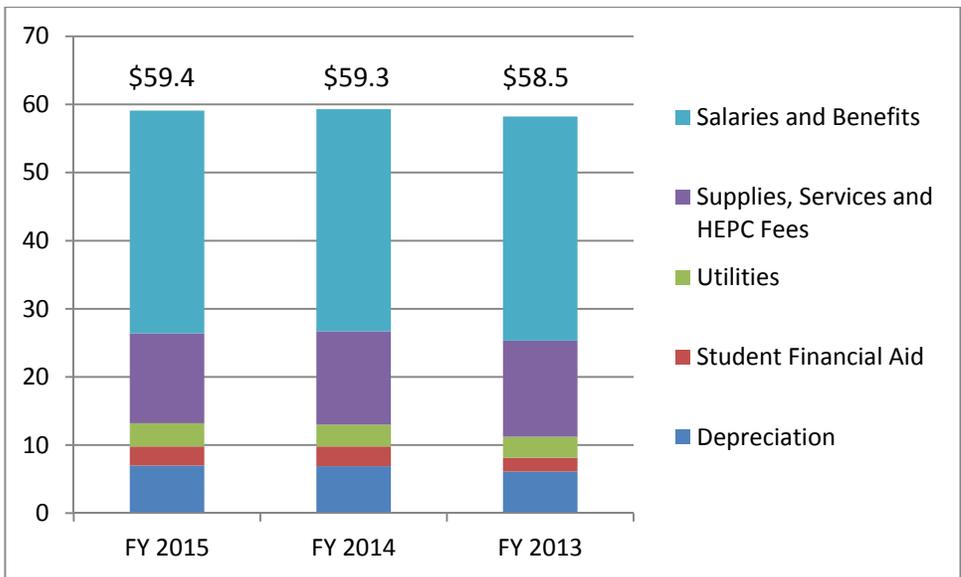
Operating Expenses:

Salaries and benefits represent 55 percent of the total 2015 operating expenses. This is consistent with 2014. Within this category of expenses, salaries decreased by \$617,254 from 2014 to 2015 while the total cost of benefits increased 13 percent or approximately \$732,000. Contributing factors to the increased cost of benefits include increases in the annual cost billed to employers for other post-employment benefits (OPEB), employer paid portion of employee health insurance premiums and pension. Overall, employee compensation including,

benefits increased by \$114,746. The University implemented University wide cost containment strategies to offset fixed cost increases for 2015.

Overall, 2015 operating expenses increased \$87,493 over the previous year.

Operating Expenses – FY 2015-2013
(In millions)



Non-operating Revenues (Expenses)

There are two material changes in non-operating revenues (expenses). The State appropriations decreased 1.7% from 2014 to \$9.94 million. Additionally, gifts increased \$297,596 from prior year due to recognition of Foundation support associated with operating activities.

The net result of operating and non-operating revenues and expenses was a loss of approximately \$1.6 million.

Statement of Cash Flows

The final statement presented by the University is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the University during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for non-operating, non-investing, and non-capital financing purposes. The third section deals with cash flows from capital and related financing activities. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received

from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Position.

Cash inflows from operating activities include tuition and fees, auxiliary enterprise charges, and contracts and grants. Major cash outlays in operating activities include payments to and on behalf of employees of \$32.24 million and payments to suppliers of \$12.9 million. Net cash used for operating activities decreased slightly by approximately \$196,000 from 2014 to 2015 primarily due to an increase in the University's operating loss of \$646,000 and an increase of \$882,000 in accounts payable associated with the conversion to the state's new accounting system.

State appropriations and Federal Pell grants and Direct Loans are the primary sources of non-capital financing activities. Generally Accepted Accounting Principles require that the University reflect this State revenue as non-operating revenue even though the University's budget depends on this to continue the current level of operations. There is an increase of \$595,000 primarily due to increased giving from the Foundation.

Capital financing activities represent funds that were used to purchase or add value to capital assets. The University did not undertake any substantial capital projects for 2015 resulting in a decrease of \$1.74 million from 2014 to 2015.

Cash flows from investing activities represent income earned on cash invested in our bond reserve fund related to the 2003 revenue bonds. During 2014, we refinanced those bonds as well as the 2004 revenue bonds and therefore, liquidated the reserve funds of approximately \$400,000 thus increasing our cash flow from investing

Overall cash and cash equivalents at 2015 year-end increased \$1.6 million.

Condensed Consolidated Schedules of Cash Flows

(In thousands)

	FY 2015	FY 2014	FY 2013
Net cash (used in) provided by:			
Operating activities	\$ (8,641)	\$ (8,837)	\$ (9,903)
Noncapital financing activities	16,986	16,391	17,728
Capital and related financing activities	(6,700)	(8,442)	(12,047)
Investing activities	<u>21</u>	<u>421</u>	<u>56</u>
Increase (decrease) in Cash	<u>1,666</u>	<u>(467)</u>	<u>(4,166)</u>
Cash and cash equivalents - beginning of year	<u>16,213</u>	<u>16,680</u>	<u>20,846</u>
Cash and cash equivalents - end of year	<u><u>\$ 17,879</u></u>	<u><u>\$ 16,213</u></u>	<u><u>\$ 16,680</u></u>

Economic Outlook

Current and foreseeable economic conditions will likely continue to place a pressure on Shepherd's financial capabilities for the next few years. Recently implemented federal financial aid requirements increased the standards for student assistance eligibility. As such, the number of students eligible to continue receiving

financial aid did decrease and continues to adversely affect enrollment. This is expected to be a continuing challenge going into 2016, and thereafter. Shepherd University's state appropriation was reduced by \$172,000 for 2015 after a 10% reduction in 2014. The FY16 appropriation includes a further reduction similar to the 2015 reduction and this reduction was accounted for in building the University's FY16 operating budget. Although Shepherd's reliance upon state funding is among the lowest in the state, continued dis-investment by the state in higher education will cause the University to continue to examine existing resources, reallocate or reinvest as necessary and enhancement of new revenue opportunities.

The University is taking several steps in an effort to counter these challenges and to better prepare for the future. A new Martinsburg Center was opened during summer 2014. The Center focuses on adult learners and will attract additional students from new markets to increase enrollments and enhance revenue. Enrollments during 2015 were strong and efforts are continuing to retain and recruit students to these programs. By 2021, the Center is expected to serve an additional 500 students. Additionally the Martinsburg Center has implemented Strategic Alliance Partnerships with many local businesses. The partnerships will enable students to take courses in Martinsburg at a reduced rate, but this is increased revenue for the University because these are new enrollment markets. These types of marketing and recruitment efforts will continue.

Feasibility studies and research will be conducted and Shepherd will develop and offer new market-driven programs. For example, in fiscal year 2016 the University will offer its first Doctoral program in the Doctorate of Nurse Practice.

The University is focusing on enhancing its enrollment through increased retention by establishing a Retention Interventions Team giving every undergraduate a dedicated staff advocate. Rigorous efforts will be made to maximize every opportunity to improve student success to increase retention of existing students. Attracting more international students to Shepherd is also a strategy the University is employing to grow enrollment and revenue. The University is partnering with the Higher Education Policy Commission and a leading global education recruiter/provider to bring an influx of international students to Shepherd in the future. As a third enrollment and revenue growth strategy the University is planning for improved on-campus housing options for our students.

As evidenced by the substantial increase in 2015 giving, the Shepherd University Advancement Office in partnership with the Shepherd University Foundation will continue to raise funds to provide sustaining support for academic, scholarship, cultural and athletic programs; faculty and staff development; campus renewal and beautification; and other department programs and initiatives. Outreach to alumni and regional business leaders continues, not only for financial assistance but for ongoing assessment of existing academic programs and development of new programmatic initiatives.

Strategies for setting tuition rates will be thoughtful and thorough to balance student affordability and the need for increased revenue. Because of recent enrollment declines, the focus in the upcoming years will be to control costs to students and attracting more residential and out-of-state students.

The University staff and Board of Governors will continue these efforts and implement new strategies and initiatives to sustain programs and activities, plan for future challenges and growth, and strengthen the institution's financial position.

SHEPHERD UNIVERSITY

STATEMENTS OF NET POSITION AS OF JUNE 30, 2015 AND 2014

	2015	2014
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 17,879,303	\$ 16,213,238
Accounts receivable — net	675,171	864,121
Due from Commission	17,910	-
Prepaid expense	57,902	68,264
Loans to students — current portion	100,091	100,091
Inventories	<u>604,895</u>	<u>431,837</u>
Total current assets	<u>19,335,272</u>	<u>17,677,551</u>
NONCURRENT ASSETS:		
Cash and cash equivalents	3	10
Investments	-	2
Other Receivable	306,858	-
Loans to students — net of allowance of \$423,341 and \$401,387 in 2015 and 2014, respectively	333,957	286,828
Capital assets — net	<u>131,460,589</u>	<u>135,100,563</u>
Total noncurrent assets	<u>132,101,407</u>	<u>135,387,403</u>
TOTAL ASSETS	<u>151,436,679</u>	<u>153,064,954</u>
TOTAL DEFERRED OUTFLOW OF RESOURCES:		
Deferred outflows related to pensions	<u>42,953</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u>\$ 151,479,632</u>	<u>\$ 153,064,954</u>

(Continued)

SHEPHERD UNIVERSITY

STATEMENTS OF NET POSITION AS OF JUNE 30, 2015 AND 2014

	2015	2014
LIABILITIES, DEFERRED INFLOWS AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 2,312,187	\$ 1,342,339
Accrued liabilities	2,565,174	2,385,181
Compensated absences — current portion	789,814	762,028
Unearned revenues	773,839	995,981
Deposits held in custody for others	189,003	150,067
Bonds payable — current portion	1,390,000	1,335,000
Capital lease obligations — current portion	140,114	194,946
Total current liabilities	<u>8,160,131</u>	<u>7,165,542</u>
NONCURRENT LIABILITIES:		
Advances from federal sponsors	511,662	526,575
Compensated absences	426,196	425,662
Other postemployment benefits liability	10,231,325	9,660,135
Net pension liability	449,352	-
Bonds payable, net of current portion	41,031,552	42,448,343
Capital lease obligations, net of current portion	609,535	749,649
Total noncurrent liabilities	<u>53,259,622</u>	<u>53,810,364</u>
Total liabilities	<u>61,419,753</u>	<u>60,975,906</u>
DEFERRED INFLOW OF RESOURCES:		
Deferred inflows related to pensions	<u>234,570</u>	<u>-</u>
NET POSITION:		
Net Investment in capital assets	<u>88,289,388</u>	<u>90,372,625</u>
Restricted — expendable:		
Loans	96,327	98,177
Other restricted	<u>225,266</u>	<u>100,358</u>
Total restricted - expendable	<u>321,593</u>	<u>198,535</u>
Unrestricted	<u>1,214,328</u>	<u>1,517,888</u>
Total net position	<u>89,825,309</u>	<u>92,089,048</u>
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION	<u>\$ 151,479,632</u>	<u>\$ 153,064,954</u>

See notes to financial statements.

(Concluded)

SHEPHERD UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
OPERATING REVENUES:		
Student tuition and fees — net of scholarship allowance of \$10,708,656 and \$10,701,854 in 2015 and 2014, respectively	\$ 19,524,283	\$ 19,047,020
Contracts and grants:		
Federal	490,107	923,554
State	4,601,090	4,585,850
Private	35,437	78,752
Interest on student loans receivable	13,829	8,138
Sales and services of educational activities	37,113	41,545
Auxiliary enterprise revenue — net of scholarship allowance of \$653,958 and \$463,255 in 2015 and 2014, respectively	17,905,103	18,493,472
Other operating revenues	<u>567,069</u>	<u>684,960</u>
 Total operating revenues	 <u>43,174,031</u>	 <u>43,863,291</u>
OPERATING EXPENSES:		
Salaries and wages	26,211,670	26,828,924
Benefits	6,508,277	5,776,277
Supplies and other services	13,206,772	13,431,445
Utilities	3,372,230	3,213,654
Student financial aid — scholarships and fellowships	2,812,150	2,884,914
Depreciation	7,022,709	6,898,337
Fees assessed by the Commission for operations	<u>293,248</u>	<u>306,012</u>
 Total operating expenses	 <u>59,427,056</u>	 <u>59,339,563</u>
 OPERATING LOSS	 <u>(16,253,025)</u>	 <u>(15,476,272)</u>

(Continued)

SHEPHERD UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
NONOPERATING REVENUES (EXPENSES):		
State appropriations	\$ 9,941,104	\$ 10,112,854
Payments on behalf of the University	59,983	-
Federal Pell grants	5,398,671	5,583,097
Investment income	21,459	23,588
Interest expense	(1,993,067)	(2,129,539)
Fees assessed by the Commission for debt service	(37,820)	(37,820)
Gifts	1,319,646	1,022,050
Loss on disposal of equipment	(25,488)	(62,393)
Other	(636)	(126)
	<u>14,683,852</u>	<u>14,511,711</u>
Net nonoperating revenues		
	<u>14,683,852</u>	<u>14,511,711</u>
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	(1,569,173)	(964,561)
CAPITAL AND BOND PROCEEDS FROM THE STATE	<u>600</u>	<u>1,091,933</u>
INCREASE (DECREASE) IN NET POSITION	(1,568,573)	127,372
NET POSITION — Beginning of year	92,089,048	91,961,676
Cummulative effect of change in accounting principle	<u>(695,166)</u>	<u>-</u>
NET POSITION - Beginning of year, as restated	<u>91,393,882</u>	<u>91,961,676</u>
NET POSITION — End of year	<u>\$ 89,825,309</u>	<u>\$ 92,089,048</u>

See notes to financial statements.

(Concluded)

SHEPHERD UNIVERSITY

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	\$ 19,166,089	\$ 19,342,384
Contracts and grants	5,091,821	5,531,885
Payments to and on behalf of employees	(32,240,443)	(32,646,387)
Payments to suppliers	(12,904,969)	(13,944,787)
Payments to utilities	(3,162,684)	(3,343,941)
Payments for scholarships and fellowships	(2,812,150)	(2,884,914)
Loans issued to students	(160,300)	(79,225)
Collection of loans to students	127,000	126,645
Sales and service of educational activities	37,113	41,545
Auxiliary enterprise charges	17,944,039	18,449,257
Fees assessed by the Commission	(293,248)	(306,012)
Other receipts — net	567,070	876,660
	<u>(8,640,662)</u>	<u>(8,836,890)</u>
Net cash used in operating activities		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	9,941,104	10,112,854
Federal Pell grants	5,398,671	5,583,097
Gifts	1,319,010	1,021,924
Federal student loan program — direct lending receipts	21,030,982	20,736,010
Federal student loan program — direct lending payments	(20,703,921)	(21,063,071)
	<u>16,985,846</u>	<u>16,390,814</u>
Net cash provided by noncapital financing activities		
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Capital and bond proceeds from the State	600	1,091,933
Interest paid on capital debt and leases	(1,993,067)	(2,129,539)
Purchases of capital assets	(3,140,354)	(5,790,560)
Bond and lease proceeds	-	6,730,000
Principal paid on capital debt and leases	(1,529,946)	(8,316,285)
Withdrawals from (deposits to) noncurrent cash and cash equivalents	7	9,870
Fees assessed by the Commission	(37,820)	(37,820)
	<u>(6,700,580)</u>	<u>(8,442,401)</u>
Net cash used in capital financing activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investment	2	397,833
Interest on investments	21,459	23,588
	<u>21,461</u>	<u>421,421</u>
Net cash provided by investing activities		
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,666,065	(467,056)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>16,213,238</u>	<u>16,680,294</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 17,879,303</u>	<u>\$ 16,213,238</u>

(Continued)

SHEPHERD UNIVERSITY

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2014	2014
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (16,253,025)	\$ (15,476,272)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	7,022,709	6,898,337
Net accretion of premiums/discounts on bonds payable	(26,791)	43,801
Effect of changes in operating Assets and Liabilities:		
Accounts receivables — net	(138,112)	(728)
Other receivable	(306,858)	-
Prepaid expense	10,362	(1,247)
Loans to students — net	(47,129)	39,282
Due from the Commission	(17,910)	-
Inventories	(173,058)	(23,586)
Accounts payable	701,979	(643,936)
Accrued liabilities	179,994	6,014
Compensated absences	28,320	(259,531)
Other postemployment benefits liability	571,190	229,166
Net pension liability	5,786	-
Deferred revenue	(222,142)	428,698
Deposits held in custody for others	38,936	(44,215)
Advances from federal sponsors	(14,913)	(32,673)
	<u>\$ (8,640,662)</u>	<u>\$ (8,836,890)</u>
NET CASH USED IN OPERATING ACTIVITIES		
	<u>\$ (8,640,662)</u>	<u>\$ (8,836,890)</u>
NONCASH TRANSACTIONS		
Property additions in accounts payable	\$ (1,039,994)	\$ (772,125)
Property additions acquired under capital lease obligation	\$ -	\$ (1,000,000)

See notes to financial statements.

(Concluded)

SHEPHERD UNIVERSITY

SHEPHERD UNIVERSITY FOUNDATION, INCORPORATED A COMPONENT UNIT OF SHEPHERD UNIVERSITY STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2015 AND 2014

	2015	2014
ASSETS		
Cash and cash equivalents	\$ 1,991,988	\$ 1,732,027
Pledges receivable (net of present value adjustment)	3,318,446	3,324,650
Other receivables	6,136	32,843
Accrued interest receivable	33,360	33,564
Prepaid expenses	1,582	1,582
Investments	23,206,339	25,302,022
Interest in life estate	318,582	302,653
Equipment, net	<u>5,509</u>	<u>6,971</u>
Total Assets	<u>\$ 28,881,942</u>	<u>\$ 30,736,312</u>
LIABILITIES		
Accounts payable	\$ 7,322	\$ 1,644
Accrued payroll	8,648	7,412
Custodial liabilities	2,012,091	2,444,417
Gift annuities payable	<u>146,905</u>	<u>168,986</u>
Total Liabilities	<u>\$ 2,174,966</u>	<u>\$ 2,622,459</u>
NET ASSETS		
Unrestricted	\$ (4,567,872)	\$ (2,388,213)
Temporarily restricted	6,737,382	6,364,814
Permanently restricted	<u>24,537,466</u>	<u>24,137,252</u>
Total Net Assets	<u>\$ 26,706,976</u>	<u>\$ 28,113,853</u>
Total Liabilities and Net Assets	<u>\$ 28,881,942</u>	<u>\$ 30,736,312</u>

See notes to financial statements.

SHEPHERD UNIVERSITY

SHEPHERD UNIVERSITY FOUNDATION, INCORPORATED A COMPONENT UNIT OF SHEPHERD UNIVERSITY STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT				
Cash contributions	\$ -	\$ 1,042,244	308,076	\$ 1,350,320
Stock contributions	-	47,270	30,353	77,623
Other non-cash contributions	-	79,455	15,929	95,384
Other revenue	23,035	11,951	-	34,986
Interest and dividends	-	594,348	25,032	619,380
Net realized and unrealized gains on investments	-	-	-	-
Gain (loss) on sale of investment real estate	(1,505,565)	118,812	-	(1,386,753)
Transfers	(38,338)	17,514	20,824	-
Net assets released from restrictions	1,539,026	(1,539,026)	-	-
	<u>18,158</u>	<u>372,568</u>	<u>400,214</u>	<u>790,940</u>
EXPENSES				
Program services:				
Scholarships and awards	1,445,617	-	-	1,445,617
College support	94,412	-	-	94,412
General and administrative:				
Salaries	327,345	-	-	327,345
Investment management fees	149,545	-	-	149,545
Printing and reproduction costs	32,816	-	-	32,816
Payroll taxes and benefits	50,198	-	-	50,198
Depreciation	6,737	-	-	6,737
Administrative expense	1,630	-	-	1,630
Rent	12,600	-	-	12,600
Office supplies and postage	7,159	-	-	7,159
Insurance	5,275	-	-	5,275
Changes in gift annuities	10,910	-	-	10,910
Professional fees	19,808	-	-	19,808
Staff training	238	-	-	238
Program development	28,003	-	-	28,003
Telephone	2,331	-	-	2,331
Technology	1,983	-	-	1,983
Miscellaneous	1,210	-	-	1,210
	<u>2,197,817</u>	<u>-</u>	<u>-</u>	<u>2,197,817</u>
Transfer to Unrelated Foundation	-	-	-	-
INCREASE (DECREASE) IN NET ASSETS	(2,179,659)	372,568	400,214	(1,406,877)
NET ASSETS - Beginning of year	(2,388,213)	6,364,814	24,137,252	28,113,853
NET ASSETS - End of year	<u>\$ (4,567,872)</u>	<u>\$ 6,737,382</u>	<u>\$ 24,537,466</u>	<u>\$ 26,706,976</u>

See notes to financial statements.

SHEPHERD UNIVERSITY

SHEPHERD UNIVERSITY FOUNDATION, INCORPORATED A COMPONENT UNIT OF SHEPHERD UNIVERSITY STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT				
Cash contributions	\$ -	\$ 4,040,792	802,508	\$ 4,843,300
Stock contributions	-	4,389	18,879	23,268
Other non-cash contributions	-	11,376	15,420	26,796
Other revenue	23,537	25,073	-	48,610
Interest and dividends	-	481,337	20,159	501,496
Net realized and unrealized gains on investments	1,415,750	87,276	-	1,503,026
Loss on sale of investment real estate	(64,843)	-	-	(64,843)
Transfers	(71,678)	28,130	43,548	-
Net assets released from restrictions	<u>1,315,523</u>	<u>(1,315,523)</u>	<u>-</u>	<u>-</u>
Total Revenue and Other Support	<u>2,618,289</u>	<u>3,362,850</u>	<u>900,514</u>	<u>6,881,653</u>
EXPENSES				
Program services:				
Scholarships and awards	1,230,237	-	-	1,230,237
College support	85,286	-	-	85,286
General and administrative:				
Salaries	312,137	-	-	312,137
Investment management fees	158,993	-	-	158,993
Real estate investment expenses	50	-	-	50
Printing and reproduction costs	41,108	-	-	41,108
Pledges written off	4,333	-	-	4,333
Payroll taxes and benefits	52,032	-	-	52,032
Depreciation	5,170	-	-	5,170
Administrative expense	1,559	-	-	1,559
Rent	13,138	-	-	13,138
Office supplies and postage	7,538	-	-	7,538
Insurance	5,571	-	-	5,571
Changes in gift annuities	12,025	-	-	12,025
Professional fees	29,769	-	-	29,769
Development	27,624	-	-	27,624
Telephone	2,450	-	-	2,450
Technology	1,225	-	-	1,225
Miscellaneous	192	-	-	192
Total Expenses	<u>1,990,437</u>	<u>-</u>	<u>-</u>	<u>1,990,437</u>
Transfer to Unrelated Foundation	<u>-</u>	<u>-</u>	<u>(31,279)</u>	<u>(31,279)</u>
INCREASE IN NET ASSETS	627,852	3,362,850	869,235	4,859,937
NET ASSETS - Beginning of year	<u>(3,016,065)</u>	<u>3,001,964</u>	<u>23,268,017</u>	<u>23,253,916</u>
NET ASSETS - End of year	<u>\$ (2,388,213)</u>	<u>\$ 6,364,814</u>	<u>\$ 24,137,252</u>	<u>\$ 28,113,853</u>

See notes to financial statements.

**NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

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 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, deferred inflows and outflows of resources, net position, revenues, expenses, changes in net position, and cash flows.

Reporting Entity — The University is a component unit of the State of West Virginia (the “State”), and an operating unit of the West Virginia Higher Education Fund and represents separate funds of the State that are not included in the State’s general fund. The University is a separate entity which, along with all 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 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 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.

The audited financial statements of Shepherd University Foundation, Incorporated (the Foundation) are discretely presented here with the University’s financial statements for the fiscal years ended June 30, 2015 and 2014, in accordance with GASB as a benefit/burden relationship exists between the University and the Foundation. The Foundation is a private nonprofit organization that reports under FASB standards. As such, certain revenue recognition criteria and presentation features are different from

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 15 and 20).

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

Net Investment in Capital Assets — This represents the University's total investment in capital assets, net of depreciation and 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.

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

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

Restricted — Nonexpendable — This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The University does not have any restricted nonexpendable component of net position at June 30, 2015 or 2014.

Unrestricted — This represents 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 basic 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 statements of net position, the University considers all highly liquid investments with an original maturity of three months or less at acquisition 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 financial statements.

The BTI maintains the Consolidated Fund investment fund, which consists of eight investment pools and participant-directed accounts, three of which the University may invest in. These pools have been structured as multi-participant variable net asset funds to reduce risk and offer investment liquidity diversification to the fund participants. Funds not required to meet immediate disbursement needs are invested for longer periods. A more detailed discussion of the BTI's investment operations pool can be found in its annual 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://wvbt.com>.

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

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

Noncurrent Cash, Cash Equivalents, and Investments — Cash, cash equivalents, and investments that are (1) externally restricted to make debt service payments and long-term loans to students, or to maintain sinking or reserve funds, (2) to purchase capital or other noncurrent assets or settle long-term liabilities, and (3) permanently restricted components of net position, are classified as noncurrent assets in the accompanying statements of net position.

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

Investments are made in accordance with and subject to the provisions of the Uniform Prudent Investor Act codified as article 6C, chapter 44 of the West Virginia Code.

Capital Assets — Capital assets include property, plant, and equipment, books and materials that are part of a catalogued library, and infrastructure assets. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and infrastructure, 20 years for land improvements and library books, and 3 to 10 years for furniture and equipment. The University capitalizes all purchases of library books using group depreciation and uses a capitalization threshold of \$1,000 for other capital assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Net Pension Liability – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the West Virginia Teachers' Retirement System (TRS), administered by the West Virginia Consolidated Public Retirement Board (CPRB), and additions to/reductions from the TRS fiduciary net position have been determined on the same basis as they are reported in the TRS financial statements, which can be found at <https://www.wvretirement.com/Publications.html#CAFR>. The plan schedules of TRS are prepared using the accrual basis of accounting and economic resources measurement focus in accordance with U.S. GAAP as prescribed by GASB. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Investments are reported at fair value. Detailed information on investment valuation can be found in the TRS financial statements. Management of TRS has made certain estimates and assumptions relating to employer allocation schedules, and actual results could differ. (See Note 14).

Deferred Outflows of Resources – Consumption of net position by the University that is applicable to a future fiscal year is reported as a deferred outflow of resources on the statement of net position. As of June 30, 2015, the University had deferred outflows of resources related to pensions of \$42,953 (see Note 14). As of June 30, 2014, the University did not have any deferred outflows of resources.

Deferred Inflows of Resources - Acquisition of net position by the University that is applicable to a future fiscal year is reported as a deferred inflow of resources on the statement of net position. As of June 30, 2015, the University had deferred inflows of resources related to pensions of \$234,570 (see Note 14). As of June 30, 2014, the University did not have any deferred inflows of resources.

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

GASB requires entities to accrue for employees' rights to receive compensation for vacation leave or payments in lieu of accrued vacation or sick leave as such benefits are earned and payment becomes probable. The University's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1 1/2 sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. For employees hired after 1988 or who were hired before 1988 but did not choose such coverage until after 1988 but before July 1, 2001, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired on July 1, 2001, or later will no longer receive sick

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 plans 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 also applies to coverage for faculty employees. Faculty hired after July 1, 2009, will no longer receive years of service credit toward insurance premiums when they retire. Employees hired after July 1, 2010 receive no health insurance premium subsidy from the University. Two groups of employees hired after July 1, 2010 will not be required to pay the unsubsidized rate: 1) active employees who were originally hired before July 1, 2010, who have a break in service of fewer than two years after July 1, 2010; and 2) retired employees who retired before July 1, 2010, return to active service after July 1, 2010, and then go back into retirement. In those cases, the original hire date will apply.

The estimated expense and expense incurred for the vacation leave or OPEB benefits are recorded as a component of benefits expense in the statements of revenues, expenses, and changes in net position.

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

nonoperating revenues by GASB, such as state appropriations, federal Pell grants, and investment income, and sale of capital assets (including natural resources).

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

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

Federal Financial Assistance Programs — The University makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and unsubsidized loans directly to students, through entities like the University. Direct student loan receivables are not included in the University's statements of net position, as the loans are repayable directly to the U.S. Department of Education. In 2015 and 2014, the University received and disbursed approximately \$21 million under the Federal Direct Student Loan Program on behalf of the U.S. Department of Education, which is not included as revenue and expense in the statements of revenues, expenses, and changes in net position.

The University also distributes other student financial assistance funds on behalf of the federal government to students under the federal Pell Grant, Supplemental Educational Opportunity Grant, SMART Grant, College Work Study programs Grant, and Academic Competitiveness Grant. The activity of these programs is recorded in the accompanying financial statements. In 2015 and 2014, the University received and disbursed \$5,590,561 and \$5,751,764, 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 statements of revenues, expenses, and changes in net position. Scholarship allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the student's behalf.

Financial aid to students is reported in the 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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications — Certain reclassifications have been made to the prior year presentation to conform to the current year presentation. The reclassifications did not affect net position or changes thereon.

The University has implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statements No. 68 and 71 require the University to report its share of the defined benefit pension liabilities and expense, allocated to it by the CPRB. The balance of the net pension liability and related deferred outflows of resources and deferred inflows of resources at July 1, 2014 is reported on the Statement of Revenues, Expenses, and Changes in Net Position as a restatement to the 2015 Net position – beginning of year. The CPRB was not able to provide sufficient information to restate the financial statements for the period ending June 30, 2014.

	2015
Net position - beginning of year, as previously stated	<u>\$ 92,089,048</u>
Balance of the net pension liability and related deferred outflows of resources and deferred inflows of resources	<u>(695,166)</u>
Net position - beginning of year, restated	<u>\$ 91,393,882</u>

Recent Statements Issued by the Governmental Accounting Standards Board — The GASB has issued Statement No. 72, *Fair Value Measurement and Application*, effective for fiscal years beginning after June 15, 2015. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The University has not yet determined the effect that the adoption of GASB Statement No. 72 may have on its financial statements.

The GASB has issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The requirements of this statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2016, and the requirements of this statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this statement for pension plans that are within the scope of Statement 67 or for pensions that

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015.

This statement establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions that are provided to the employees of state and local governmental employers and are not within the scope of Statement 68. This statement also establishes requirements for pensions that are provided through pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. This statement also establishes requirements for governments that hold assets accumulated for purposes of providing pensions through defined benefit pension plans that are not administered through trusts that meet certain criteria and amends certain provisions for pension plans that are within the scope of Statement 67 and for pensions that are within the scope of Statement 68. The University has not yet determined the effect that the adoption of GASB Statement No. 73 may have on its financial statements.

The GASB has also issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is effective for fiscal years beginning after June 15, 2016. This statement establishes financial reporting standards for state and local governmental other postemployment benefit plans – defined benefit plans and defined contribution plans – that are administered through trusts or equivalent arrangements that meet certain criteria. This statement also establishes financial reporting standards for governments that hold assets accumulated for purposes of providing other postemployment benefits through defined benefit plans that are not administered through trusts or equivalent arrangements that meet certain criteria. The University has not yet determined the effect that the adoption of GASB Statement No. 74 may have on its financial statements.

The GASB has also issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is effective for fiscal years beginning after June 15, 2017. This statement establishes standards of accounting and financial reporting for defined benefit other postemployment benefits and defined contribution other postemployment benefits that are provided to the employees of state and local governmental employers through other postemployment benefit plans that are administered through trusts or equivalent arrangements that meet certain criteria. This statement also establishes standards of accounting and financial reporting for defined benefit other postemployment benefits and defined contribution other postemployment benefits that are provided to the employees of state and local governmental employers through other postemployment benefit plans that are not administered through trusts that meet certain criteria. The University has not yet determined the effect that the adoption of GASB Statement No. 75 may have on its financial statements.

The GASB has also issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which is effective for fiscal years beginning after June 15, 2015. This statement establishes the hierarchy of GAAP for state and local governments. The University has not yet determined the effect that the adoption of GASB Statement No. 76 may have on its financial statements.

The GASB has also issued Statement No. 77, *Tax Abatement Disclosures*, which is effective for fiscal years beginning after December 15, 2015. This statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The University has not yet determined the effect that the adoption of GASB Statement No. 77 may have on its financial statements.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents as of June 30, 2015 and 2014 was as follows:

	2015		
	Current	Noncurrent	Total
State Treasurer	\$ 16,662,864	\$ -	\$ 16,662,864
Trustee Bank	-	3	3
Bank	<u>1,216,439</u>	<u>-</u>	<u>1,216,439</u>
	<u>\$ 17,879,303</u>	<u>\$ 3</u>	<u>\$ 17,879,306</u>

	2014		
	Current	Noncurrent	Total
State Treasurer	\$ 15,192,752	\$ -	\$ 15,192,752
Trustee Bank	-	10	10
Bank	<u>1,020,486</u>	<u>-</u>	<u>1,020,486</u>
	<u>\$ 16,213,238</u>	<u>\$ 10</u>	<u>\$ 16,213,248</u>

Cash and cash equivalents with the State Treasurer included \$75,743 in 2015 and \$92,830 in 2014 of restricted cash for grants.

Cash and cash equivalents with trustee banks represents funds reserved for debt payments on the University Refunding Revenue Bonds issued in January 2003, September 2004, and May 2005. The University uses the Trustee Bank as its trustee for the bond proceeds.

The combined carrying amount of cash in bank at June 30, 2015 and 2014 was \$1,216,439 and \$1,020,486 as compared with the combined bank balance of \$1,210,196 and \$1,043,880, respectively.

The difference is primarily caused by outstanding checks and items in transit. The bank balances are covered by federal depository insurance up to specified amounts. At June 30, 2015 and 2014, the University was exposed to custodial credit risk of \$373,183 and \$378,486, respectively.

Amounts with the State Treasurer as of June 30, 2015 and 2014, are comprised of three investment pools, the WV Money Market Pool, the WV Government Money Market Pool and the WV Short Term Bond Pool, and certain amounts of uninvested cash.

3. CASH AND CASH EQUIVALENTS (CONTINUED)

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The following table provides information on the Standard & Poor’s rating of the investment pools as of June 30:

External Pool	2015		2014	
	Carrying Value	S & P Rating	Carrying Value	S & P Rating
WV Money Market	\$ 16,521,587	AAAm	\$ 14,741,381	AAAm
WV Government Money Market	\$ 146,219	AAAm	\$ 122,433	AAAm
WV Short Term Bond	\$ 3,698	Not Rated	\$ 312,723	Not Rated

A fund rated “AAAm” has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/ liquidity risks. “AAAm” is the highest principal stability fund rating assigned by Standard & Poor’s.

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 amounts with the State Treasurer are subject to interest rate risk. The following table provides information on the weighted average maturities for the WV Money Market Pool and the WV Government Money Market Pool:

External Pool	2015		2014	
	Carrying Value	WAM (days)	Carrying Value	WAM (days)
WV Money Market	\$ 16,521,587	52	\$ 14,741,381	52
WV Government Money Market	\$ 146,219	50	\$ 122,433	50

The following table provides information on the effective duration for the WV Short Term Bond Pool:

External Pool	2015		2014	
	Carrying Value	Effective Duration (days)	Carrying Value	Effective Duration (days)
WV Short Term Bond	\$ 3,698	358	312,723	358

3. CASH AND CASH EQUIVALENTS (CONTINUED)

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.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Cash in bank with Trustee is governed by provisions of the bond agreement. The objective of the money market fund is to increase the current level of income while continuing to maintain liquidity and capital. Assets are invested in high-quality, short-term money market instruments.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the University will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Interest rate risk is the risk that changes the interest rates will adversely affect the fair value of an investment. The University's investment policy limits investment maturities from potential fair value losses due to increasing interest rates.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The University has no securities with foreign currency 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 \$2 for the year ended June 30, 2014. The mortgage-backed securities are issued by the United States Government or FNMA. These funds have no significant custodial credit risk or interest rate risk. These funds are not exposed to a significant concentration of credit risk nor any foreign currency risk.

5. ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2015 and 2014, are as follows:

	2015	2014
Student tuition and fees — net of allowance for doubtful accounts of \$678,807 and \$558,780 in 2015 and 2014, respectively	\$ 499,635	\$ 373,676
Grants and contracts receivable	<u>175,536</u>	<u>490,445</u>
	<u>\$ 675,171</u>	<u>\$ 864,121</u>

6. CAPITAL ASSETS

Summary of capital assets transactions for the University as of June 30, 2015 and 2014, are as follows:

	2015			Ending Balance
	Beginning Balance	Additions	Reductions	
Capital assets not being depreciated:				
Land	\$ 1,120,925	\$ -	\$ -	\$ 1,120,925
Construction in progress	<u>1,605,388</u>	<u>2,517,008</u>	<u>3,277,008</u>	<u>845,388</u>
Total capital assets not being depreciated	<u>2,726,313</u>	<u>2,517,008</u>	<u>3,277,008</u>	<u>1,966,313</u>
Capital assets being depreciated:				
Land improvements	3,796,074	320,309	-	4,116,383
Land improvements - leased	1,825,416	-	-	1,825,416
Infrastructure	14,430,929	128,256	-	14,559,185
Buildings	166,675,827	2,841,590	-	169,517,417
Equipment	12,949,873	788,339	325,177	13,413,035
Library books	<u>3,862,662</u>	<u>89,729</u>	<u>-</u>	<u>3,952,391</u>
Total capital assets being depreciated	<u>203,540,781</u>	<u>4,168,223</u>	<u>325,177</u>	<u>207,383,827</u>
Less accumulated depreciation for:				
Land improvements	939,606	279,673	-	1,219,279
Land improvements - leased	415,175	121,694	-	536,869
Infrastructure	5,447,743	680,725	-	6,128,468
Buildings	53,237,344	4,521,312	-	57,758,656
Equipment	7,814,919	1,307,771	299,689	8,823,001
Library books	<u>3,311,744</u>	<u>111,534</u>	<u>-</u>	<u>3,423,278</u>
Total accumulated depreciation	<u>71,166,531</u>	<u>7,022,709</u>	<u>299,689</u>	<u>77,889,551</u>
Capital assets being depreciated - net	<u>132,374,250</u>	<u>(2,854,486)</u>	<u>25,488</u>	<u>129,494,276</u>
Total Capital Assets	<u>\$ 135,100,563</u>	<u>\$ (337,478)</u>	<u>\$ 3,302,496</u>	<u>\$ 131,460,589</u>

6. CAPITAL ASSETS (CONTINUED)

	2014			Ending Balance
	Beginning Balance	Additions	Reductions	
Capital assets not being depreciated:				
Land	\$ 1,120,925	\$ -	\$ -	\$ 1,120,925
Construction in progress	4,275,823	3,768,668	6,439,103	1,605,388
Total capital assets not being depreciated	<u>5,396,748</u>	<u>3,768,668</u>	<u>6,439,103</u>	<u>2,726,313</u>
Capital assets being depreciated:				
Land improvements	1,995,010	1,801,064	-	3,796,074
Land improvements - leased	825,416	1,000,000	-	1,825,416
Infrastructure	14,329,873	101,056	-	14,430,929
Buildings	163,299,442	3,376,385	-	166,675,827
Equipment	12,363,624	1,246,554	660,305	12,949,873
Library books	3,943,041	71,525	151,904	3,862,662
Total capital assets being depreciated	<u>196,756,406</u>	<u>7,596,584</u>	<u>812,209</u>	<u>203,540,781</u>
Less accumulated depreciation for:				
Land improvements	670,105	269,501	-	939,606
Land improvements - leased	293,481	121,694	-	415,175
Infrastructure	4,769,841	677,902	-	5,447,743
Buildings	48,808,280	4,429,064	-	53,237,344
Equipment	7,130,490	1,282,340	597,911	7,814,919
Library books	3,345,813	117,836	151,905	3,311,744
Total accumulated depreciation	<u>65,018,010</u>	<u>6,898,337</u>	<u>749,816</u>	<u>71,166,531</u>
Capital assets being depreciated - net	<u>131,738,396</u>	<u>698,247</u>	<u>62,393</u>	<u>132,374,250</u>
Total Capital Assets	<u>\$ 137,135,144</u>	<u>\$ 4,466,915</u>	<u>\$ 6,501,496</u>	<u>\$ 135,100,563</u>

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

At June 30, 2015, 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, 2015, are as follows:

Years Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 140,114	\$ 11,403	\$ 151,517
2017	142,462	9,055	151,517
2018	144,850	6,667	151,517
2019	147,277	4,240	151,517
2020	149,746	1,772	151,518
2021	<u>25,200</u>	<u>52</u>	<u>25,252</u>
Total	<u>\$ 749,649</u>	<u>\$ 33,189</u>	<u>\$ 782,838</u>

The net book value of capital assets held under the capital lease as of June 30, 2015 and 2014, was \$1,288,547 and \$1,410,240, net of accumulated depreciation of \$536,869 and \$415,175, respectively.

8. LONG-TERM LIABILITIES

Summary of long-term obligation transactions for the University for the years ended June 30, 2015 and 2014 are as follows:

	<u>2015</u>				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds and capital leases:					
Bonds payable	\$ 43,245,000	\$ -	\$ 1,335,000	\$ 41,910,000	\$ 1,390,000
Bond premium/discount	538,343	4,007	30,798	511,552	-
Capital lease obligations	<u>944,595</u>	<u>-</u>	<u>194,946</u>	<u>749,649</u>	<u>140,114</u>
Total bonds and capital leases	<u>44,727,938</u>	<u>4,007</u>	<u>1,560,744</u>	<u>43,171,201</u>	<u>1,530,114</u>
Other long-term liabilities:					
Advances from federal sponsors	526,575	-	14,913	511,662	-
Compensated absences	1,187,690	28,320	-	1,216,010	789,814
Other postemployment benefits liability	<u>9,660,135</u>	<u>571,190</u>	<u>-</u>	<u>10,231,325</u>	<u>-</u>
Total other long-term liabilities	<u>11,374,400</u>	<u>599,510</u>	<u>14,913</u>	<u>11,958,997</u>	<u>789,814</u>
Total long-term liabilities	<u>\$ 56,102,338</u>	<u>\$ 603,517</u>	<u>\$ 1,575,657</u>	<u>\$ 55,130,198</u>	<u>\$ 2,319,928</u>

8. LONG-TERM LIABILITIES (CONTINUED)

	2014				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and capital leases:					
Bonds payable	\$ 44,635,000	\$ 6,730,000	\$ 8,120,000	\$ 43,245,000	\$ 1,335,000
Bond premium/discount	494,542	79,278	35,477	\$ 538,343	-
Capital lease obligations	<u>140,880</u>	<u>1,001,340</u>	<u>197,625</u>	<u>944,595</u>	<u>194,946</u>
Total bonds and capital leases	<u>45,270,422</u>	<u>7,810,618</u>	<u>8,353,102</u>	<u>44,727,938</u>	<u>1,529,946</u>
Other long-term liabilities:					
Advances from federal sponsors	559,248	-	32,673	526,575	-
Compensated absences	1,447,221	-	259,531	1,187,690	762,028
Other postemployment benefits liability	<u>9,430,969</u>	<u>229,166</u>	<u>-</u>	<u>9,660,135</u>	<u>-</u>
Total other long-term liabilities	<u>11,437,438</u>	<u>229,166</u>	<u>292,204</u>	<u>11,374,400</u>	<u>762,028</u>
Total long-term liabilities	<u>\$ 56,707,860</u>	<u>\$ 8,039,784</u>	<u>\$ 8,645,306</u>	<u>\$ 56,102,338</u>	<u>\$ 2,291,974</u>

9. BONDS PAYABLE

Bonds payable as of June 30, 2015 and 2014, consisted of the following:

	Interest Rate	Annual Principal Installment Due	Principal Amount Outstanding	
			2015	2014
Residence Facilities Revenue Bonds, due through 2035	5.00%	\$575,000–1,450,000	\$ 19,010,000	\$ 19,560,000
Wellness Center Facilities Revenue Bonds, due through 2037	4.00%–5.0%	\$450,000–1,170,000	16,700,000	17,130,000
Refunding Revenue Bonds, due through 2033	3.0% - 4.375%	\$365,000-460,000	<u>6,200,000</u>	<u>6,555,000</u>
			41,910,000	43,245,000
Discount			(89,487)	(93,494)
Premium			<u>601,039</u>	<u>631,837</u>
			<u>\$ 42,421,552</u>	<u>\$ 43,783,343</u>

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 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

9. BONDS PAYABLE (CONTINUED)

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. These bonds were refinanced in December 2014.

For both the years ended June 30, 2015 and 2014, capital financing fees (“fees”) of \$69 per student per semester, based on full-time equivalent (FTE) enrollment, were 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, 2015 and 2014, 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. These bonds were refinanced in December 2014.

The Bonds maturing on and after June 1, 2015, 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, 2015 and 2014, fees of \$48 per student per semester, based on FTE enrollment, were 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, 2015 and 2014, 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

9. BONDS PAYABLE (CONTINUED)

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 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, 2015 and 2014, 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 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, 2015 and 2014, gross revenues when combined with other monies legally available for payment of debt service were in excess of the maximum annual debt service.

Refunding Revenue Bonds – On December 2, 2013, the University issued \$6.7 million in General Obligation Bonds with an average interest rate of 3.69% to advance refund \$7.1 million of outstanding 2003 and 2004 series bonds with an average interest rate of 4.27%. As a result, both 2003 series bonds and 2004 series bonds are considered to be defeased and the liability for both of those bonds has been removed from statement of net position.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of old debt of \$11,287. The difference, reported in the accompanying financial statements as a

9. BONDS PAYABLE (CONTINUED)

deduction of bonds payable, was being charged to operations during 2014. The University completed the refunding to reduce its total debt service payments over the next 20 years by \$573,801 and to obtain an economic gain (difference between the present value of the old and new debt service payments) of

\$461,337. This savings represents 4.4% of the original debt service payments and exceeds the 3% minimum set by the Governor's office.

Summary of the annual aggregate principal and interest payments for years subsequent to June 30, 2015, are as follows:

Years Ending June 30	2005		2007	
	Principal	Interest	Principal	Interest
2016	\$ 575,000	\$ 950,500	\$ 450,000	\$ 770,300
2017	605,000	921,750	470,000	747,800
2018	635,000	891,500	490,000	729,000
2019	665,000	859,750	515,000	704,500
2020	700,000	826,500	540,000	678,750
2021-2025	4,055,000	3,571,500	3,130,000	2,969,775
2026-2030	5,175,000	2,451,750	3,910,000	2,186,256
2031-2035	6,600,000	1,022,000	4,905,000	1,200,681
2036-2037	-	-	2,290,000	155,700
Total	<u>\$ 19,010,000</u>	<u>\$ 11,495,250</u>	<u>\$ 16,700,000</u>	<u>\$ 10,142,762</u>

Years Ending June 30	2013		Total	
	Principal	Interest	Principal	Interest
2016	\$ 365,000	\$ 208,313	\$ 1,390,000	\$ 1,929,113
2017	380,000	197,362	1,455,000	1,866,912
2018	390,000	185,963	1,515,000	1,806,463
2019	400,000	174,262	1,580,000	1,738,512
2020	410,000	165,862	1,650,000	1,671,112
2021-2025	2,000,000	636,613	9,185,000	7,177,888
2026-2030	1,325,000	363,606	10,410,000	5,001,612
2031-2035	930,000	82,688	12,435,000	2,305,369
2036-2037	-	-	2,290,000	155,700
Total	<u>\$ 6,200,000</u>	<u>\$ 2,014,669</u>	<u>\$ 41,910,000</u>	<u>\$ 23,652,681</u>

10. OTHER POSTEMPLOYMENT BENEFITS

In accordance with GASB, OPEB costs are accrued based upon invoices received from PEIA based upon actuarially determined amounts. At June 30, 2015, 2014, and 2013 the noncurrent liability related to OPEB costs was \$10,231,325, \$9,660,135, and \$9,430,969, respectively. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was \$1,358,046 and \$786,855, respectively, during 2015. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was \$1,074,291 and \$845,126, respectively, during 2014. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was \$993,495 and \$789,507, respectively, during 2013. As of and for the years ended June 30, 2015, 2014, and 2013, there were 32, 29, and 36 retirees receiving these benefits, respectively. The University does not have a current plan in place to fund the OPEB liability, however, the State has dedicated funds to be transferred into Retiree Health Benefit Trust Fund to commence at a future date.

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 obligations 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.

Debt service assessed as of June 30, 2015 and 2014, are as follows:

	2015	2014
Other	<u>\$ 37,820</u>	<u>\$ 37,820</u>

12. UNRESTRICTED COMPONENTS OF NET POSITION

The University did not have any board designated unrestricted components of net position as of June 30, 2015 or 2014.

	2015	2014
Total unrestricted net position before OPEB and net pension liability	\$ 11,895,005	\$ 11,178,023
Less Net pension liability	(449,352)	-
Less OPEB liability	<u>(10,231,325)</u>	<u>(9,660,135)</u>
Total unrestricted component of net position	<u>\$ 1,214,328</u>	<u>\$ 1,517,888</u>

13. DEFINED CONTRIBUTION PLANS

Substantially, all full-time employees of the University participate in either the West Virginia Teachers' retirement System (TRS), 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 TRS and TIAA-CREF. Effective July 1, 1991, the TRS was closed to new participants. Current participants in the TRS 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, 2015 and 2014, only one employee has elected this plan.

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.

The total contributions that the University was required to contribute to the TIAA-CREF for the years ended June 30, 2015, 2014, and 2013, were \$2,533,604, \$2,494,766, and \$2,441,864, respectively, which consisted of equal contributions from the University and covered employees in 2015, 2014, and 2013 of \$1,266,802, \$1,247,383, and \$1,220,932, respectively.

The total contributions that the University was required to contribute to the Great West for the years ended June 30, 2015, 2014, and 2013, were \$136,838, \$149,449, and \$123,420, respectively, which consisted of equal contributions from the University and the covered employee in 2015, 2014, and 2013 of \$68,419, \$74,724, and \$61,710, respectively.

13. DEFINED CONTRIBUTION PLANS (CONTINUED)

The University's total payroll for the years ended June 30, 2015 and 2014 was \$26,399,761 and \$26,770,334, respectively, and total covered employees' salaries in TIAA-CREF and Great West were , \$21,113,370 and \$1,140,300 in 2015, and \$20,789,714 and \$1,245,405 in 2014, respectively.

14. DEFINED BENEFIT PENSION PLAN

Some employees of the University are enrolled in a defined benefit pension plan, the West Virginia Teachers' Retirement System (TRS), which is administered by the West Virginia Consolidated Public Retirement Board (CPRB).

Following is the University's pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, revenues, and the pension expense and expenditures for the fiscal year ended June 30, 2015:

	TRS
Net Pension Liability	\$ 449,352
Deferred Outflows of Resources	\$ 42,953
Deferred Inflows of Resources	\$ 234,570
Revenues	\$ 59,983
Pension Expense	\$ 48,739
Contributions Made by Shepherd	\$ 42,953

TRS

Plan Description

TRS is a multiple employer defined benefit cost sharing public employee retirement system providing retirement benefits as well as death and disability benefits. It covers all full-time employees of the 55 county public school systems in the State of West Virginia (the State) and certain personnel of the 13 State-supported institutions of higher education, State Department of Education and the Higher Education Policy Commission hired prior to July 1, 1991. Employees of the State-supported institutions of higher education and the Higher Education Policy Commission hired after June 30, 1991, are required to participate in the Higher Education Retirement System. TRS closed membership to new hires effective July 1, 1991.

TRS is considered a component unit of the State of West Virginia for financial reporting purposes, and, as such, its financial report is also included in the State of West Virginia's Comprehensive Annual Financial Report. TRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained from the TRS website at <https://www.wvretirement.com/Publications.html#CAFR>

Benefits Provided

TRS provides retirement, death, and disability benefits. A member is eligible for normal retirement at age 60 with five years of service, age 55 with 30 years of service or any age with 35 years of service.

14. **DEFINED BENEFIT PENSION PLAN (CONTINUED)**

A member may retire with 30 years of credited service at any age with the pension reduced actuarially if the member retires before age 55. Terminated members with at least five, but less than 20, years of credited service who do not withdraw their accumulated contributions are entitled to a deferred retirement commencing at age 62. Retirement benefits are equivalent to 2% of average annual salary multiplied by years of service. Average salary is the average of the 5 highest fiscal years of earnings during the last 15 fiscal years of earnings. Chapter 18, Article 7A of the West Virginia State Code assigns the authority to establish and amend the provisions of the plan, including contribution rates, to the State Legislature.

Contributions

The funding objective of the CPRB pension trust funds is to meet long-term benefit requirements through contributions, which remain relatively level as a percent of member payroll over time, and through investment earnings. Contribution requirements are set by CPRB. A member who withdraws from service for any cause other than death or retirement may request that the accumulated employee contributions plus interest be refunded.

Member Contributions: TRS funding policy provides for member contributions based on 6% of members' gross salary. Contributions as a percentage of payroll for members and employers are established by State law and are not actuarially determined.

Employer Contributions: Employers make the following contributions:

The State (including institutions of higher education) contributes:

1. 15% of gross salary of their State-employed members hired prior to July 1, 1991;
2. 15% of School Aid Formula (SAF) covered payroll of county-employed members;
3. 7.5% of SAF-covered payroll of members of the TDCRS;
4. a certain percentage of fire insurance premiums paid by State residents; and
5. under WV State code section 18-9-A-6a, beginning in fiscal year 1996, an amount determined by the State Actuary as being needed to eliminate the TRS unfunded liability within 40 years of June 30, 1994. As of June 30, 2014, the University's proportionate share attributable to this special funding subsidy was \$59,983.

The University's contributions to TRS for the years ended June 30, 2015, 2014, and 2013, were approximately \$42,953, \$59,998, and \$82,653, respectively.

Assumptions

The total pension liabilities for financial reporting purposes were determined by actuarial valuations as of July 1, 2013 and rolled forward to June 30, 2014. The following actuarial assumptions were used and applied to all periods included in the measurement:

- Actuarial cost method: Entry age normal cost with level percentage of payroll.
- Asset valuation method: Investments are reported at fair (market) value.
- Amortization method and period: Level dollar, fixed period over 40 years, from July 1, 1994 through fiscal year 2034.
- Investment rate of return of 7.50%, net of pension plan administrative and investment expenses.

14. DEFINED BENEFIT PENSION PLAN (CONTINUED)

- Projected salary increases: Teachers 3.75–5.25% and non-teachers 3.40–6.50%, based on age.
- Inflation rate of 2.2%.
- Discount rate of 7.50%
- Mortality rates based on RP-2000 Mortality Tables.
- Withdrawal rates: Teachers 1.2-30% and non-teachers 1.4-22.5%.
- Disability rates: 0-0.8%
- Retirement age: An age-related assumption is used for participants not yet receiving payments.
- Retirement rates: 15-100%
- *Ad hoc* cost-of-living increases in pensions are periodically granted by the State Legislature. However, the retirement system makes no automatic provision for such increases.

Experience studies are performed at least once in every five-year period. The most recent experience study covered the period from July 1, 2005 to June 30, 2010. These assumptions will remain in effect for valuation purposes until such time as the CPRB adopts revised assumptions.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the long-term arithmetic real rates of return for each major asset class included in TRS’ target asset allocation as of June 30, 2014, are summarized below.

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
Domestic equity	5.4%	27.5%
International equity	6.3%	27.5%
Core fixed income	0.7%	-
High-yield fixed income	2.6%	15%*
TIPS	0.7%	-
Real estate	4.6%	10.0%
Private equity	7.7%	10.0%
Hedge funds	2.8%	10.0%

* Core and high-yield fixed income securities have a combined target allocation of 15.0%

Discount rate. The discount rate used to measure the total TRS pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that State contributions will continue to follow the current funding policy. Based on those assumptions, TRS fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on TRS’ investments was applied to all periods of projected benefit payments to determine the total pension liability. In the event of benefit payments that are not covered by the pension plan’s fiduciary net position, a municipal bond rate of 3.66% is to

14. DEFINED BENEFIT PENSION PLAN (CONTINUED)

be used to discount the benefit payments not covered by the plan's fiduciary net position. The rate equals the S&P Municipal Bond 20 Year High Grade Rate Index at June 30, 2014.

Sensitivity of the net pension liability to changes in the discount rate. The following presents the University's proportionate share of the TRS net pension liability as of June 30, 2015 calculated using the discount rate of 7.50%, as well as what the University's TRS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate (dollars in thousands).

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability	\$ 582,742	\$ 449,352	\$ 334,812

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. The TRS net pension liability was measured as of June 30, 2014. The total pension liability was determined by an actuarial valuation as of July 1, 2013 and rolled forward to the measurement date.

At June 30, 2015, the University's proportionate share of the TRS net pension liability was \$1,464,618. Of this amount, the University recognized approximately \$449,352 as its proportionate share on the Statement of Net Position. The remainder of \$1,015,266 denotes the University's proportionate share of net pension liability attributable to the special funding situation.

The allocation percentage assigned to each participating employer and non-employer contributing entity is based on their proportionate share of employer and non-employer contributions to TRS for each of the fiscal years ended June 30, 2014 and 2013. Employer contributions are recognized when due. At June 30, 2014, the University's proportion was 0.013024%, an increase of 0.005045% from its proportion of 0.018069% calculated as of June 30, 2013.

For the year ended June 30, 2015, the University recognized TRS pension expense of \$48,739. Of this amount, \$(11,244) was recognized as the University's proportionate share of the TRS expense and \$59,983 as the amount of pension expense attributable to special funding from a non-employer contributing entity. The University also recognized revenue of \$59,983 for support provided by the State.

14. DEFINED BENEFIT PENSION PLAN (CONTINUED)

At June 30, 2015, deferred outflows of resources and deferred inflows of resources related to the TRS pension are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Proportion and difference between employer contributions and proportionate share of contributions	\$ -	\$ 175,174
Net difference between projected and actual investment earnings	-	59,396
Contributions after the measurement date	<u>42,953</u>	<u>-</u>
Total	<u>\$ 42,953</u>	<u>\$ 234,570</u>

The University will recognize the \$42,953 reported as deferred outflows of resources resulting from pension contributions after the measurement date as a reduction of the TRS net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in TRS pension expense as follows:

Fiscal Year Ended	Amortization
June 30, 2016	\$ (50,526)
June 30, 2017	(50,526)
June 30, 2018	(50,526)
June 30, 2019	(50,526)
June 30, 2020	<u>(32,466)</u>
	<u>\$ (234,570)</u>

Payables to the pension plan

The University did not report any amounts payable for normal contributions to the TRS as of June 30, 2015.

15. 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, which the Foundation holds and invests, is 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.

15. FOUNDATION (CONTINUED)

Based on the Foundation's audited financial statements as of June 30, 2015 and 2014, the Foundation's net assets (including unrealized gains) totaled \$26,706,976 and \$28,113,853, 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, 2015 and 2014, the Foundation contributed \$1,294,123 and \$1,022,050, respectively, to the University for scholarships and awards.

16. 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, and a benefit/burden relationship does not exist between them and the University. Therefore, their operations are not listed as a component unit of the University.

17. COMMITMENTS AND CONTINGENCIES

Leases

The University executed an operating lease agreement for the Martinsburg Center campus at 261 Aikens Center, Martinsburg, West Virginia in 2014. The lease agreement includes scheduled rent increases over the term of the lease, which will be recognized on a straight-line basis over the term of the lease. The lease expires June 2023. Rental expense under the operating lease was approximately \$229,260 for the years ended June 30, 2015 and 2014, and is included in supplies and other services (Instruction) in the accompanying statements of revenues, expenses, and changes in net position.

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

	Leases
2016	\$ 229,260
2017	229,260
2018	229,260
2019	229,260
2020	229,260
2021-2023	<u>687,780</u>
Total minimum lease payments	<u>\$ 1,834,080</u>

Claims

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

17. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

Federal Contracts

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.

Arbitrage

The Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates. There are no arbitrage rebate liabilities as of June 30, 2015 or 2014.

Building Codes

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.

Risk Management

The University is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The University carries commercial insurance to insure against major loss related to these risks. The University also carries commercial insurance for employee health, long-term disability, life, and workers compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage. There have been no significant reductions in insurance coverage or any settled claims that have exceeded the amount of the coverage in any of the past three years.

18. SEGMENT INFORMATION

Condensed statements of net position as of June 30, 2015 and 2014:

	Residence Facilities Projects Revenue Bonds 2005		Wellness Center Revenue Bonds 2007		Refunding Revenue Bonds 2013	
	2015	2014	2015	2014	2015	2014
Assets:						
Current assets	8,940,762	8,178,466	1,186,185	1,081,047	1,635,131	2,240,989
Noncurrent assets	<u>20,900,112</u>	<u>20,635,517</u>	<u>16,986,496</u>	<u>17,545,323</u>	<u>5,862,898</u>	<u>4,742,338</u>
Total assets	<u>29,840,874</u>	<u>28,813,983</u>	<u>18,172,681</u>	<u>18,626,370</u>	<u>7,498,029</u>	<u>6,983,327</u>
Liabilities:						
Current liabilities	2,120,972	2,000,862	625,342	582,130	861,356	373,247
Noncurrent liabilities	<u>18,995,449</u>	<u>20,348,263</u>	<u>16,160,513</u>	<u>16,606,506</u>	<u>5,876,018</u>	<u>6,243,222</u>
Total liabilities	<u>21,116,421</u>	<u>22,349,125</u>	<u>16,785,855</u>	<u>17,188,636</u>	<u>6,737,374</u>	<u>6,616,469</u>
Net position:						
Net investment in capital assets	1,303,586	(81,037)	373,839	508,815	(378,117)	(1,855,888)
Restricted:						
Unrestricted	<u>7,420,867</u>	<u>6,545,895</u>	<u>1,012,987</u>	<u>928,919</u>	<u>1,138,772</u>	<u>2,222,746</u>
Total net position	<u>8,724,453</u>	<u>6,464,858</u>	<u>1,386,826</u>	<u>1,437,734</u>	<u>760,655</u>	<u>366,858</u>
Total net position and liabilities	<u>29,840,874</u>	<u>28,813,983</u>	<u>18,172,681</u>	<u>18,626,370</u>	<u>7,498,029</u>	<u>6,983,327</u>

Condensed statements of revenues, expenses, and changes in net position for the years ended June 30, 2015 and 2014:

	Residence Facilities Projects Revenue Bonds 2005		Wellness Center Revenue Bonds 2007		Refunding Revenue Bonds 2013	
	2015	2014	2015	2014	2015	2014
Operating:						
Operating revenues	\$ 16,126,414	\$ 16,680,715	\$ 2,574,510	\$ 2,471,217	\$ 1,005,954	\$ 468,236
Operating expenses	(12,894,389)	(14,701,195)	(1,811,190)	(1,553,857)	(429,867)	(97,871)
Net operating income	<u>3,232,025</u>	<u>1,979,520</u>	<u>763,320</u>	<u>917,360</u>	<u>576,087</u>	<u>370,365</u>
Nonoperating:						
Nonoperating revenues	12,551	9,314	1,269	1,468	73,608	1
Nonoperating expenses	(984,981)	(978,195)	(815,497)	(823,377)	(255,898)	(3,508)
Net nonoperating loss	<u>(972,430)</u>	<u>(968,881)</u>	<u>(814,228)</u>	<u>(821,909)</u>	<u>(182,290)</u>	<u>(3,507)</u>
Increase (decrease) in net assets	2,259,595	1,010,639	(50,908)	95,451	393,797	366,858
Net position — beginning of year	<u>6,464,858</u>	<u>5,454,219</u>	<u>1,437,734</u>	<u>1,342,283</u>	<u>366,858</u>	<u>-</u>
Net position — end of year	<u>\$ 8,724,453</u>	<u>\$ 6,464,858</u>	<u>\$ 1,386,826</u>	<u>\$ 1,437,734</u>	<u>\$ 760,655</u>	<u>\$ 366,858</u>

Condensed statements of cash flows for the years ended June 30, 2015 and 2014:

	Residence Facilities Projects Revenue Bonds 2005		Wellness Center Revenue Bonds 2007		Refunding Revenue Bonds 2013	
	2015	2014	2015	2014	2015	2014
Net cash provided by (used in) operating activities	\$ 3,745,022	\$ 4,163,862	\$ 1,317,770	\$ 729,193	\$ 703,568	\$ 448,168
Net cash used in capital and related financing	(2,960,837)	(1,914,302)	(1,328,909)	(1,267,541)	(1,571,163)	(272,488)
Net cash provided by (used in) \investing activities	<u>-</u>	<u>(923,952)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,045,241</u>
Increase (decrease) in cash and cash equivalents	784,185	1,325,608	(11,139)	(538,348)	(867,595)	2,220,921
Cash and cash equivalents — beginning of year	<u>7,732,868</u>	<u>6,407,260</u>	<u>405,959</u>	<u>944,307</u>	<u>2,220,921</u>	<u>-</u>
Cash and cash equivalents — end of year	<u>\$ 8,517,053</u>	<u>\$ 7,732,868</u>	<u>\$ 394,820</u>	<u>\$ 405,959</u>	<u>\$ 1,353,326</u>	<u>\$ 2,220,921</u>

19. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2015 and 2014, the following represents operating expenses within both natural and functional classifications:

	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Fees Assessed by the Commission	Total
2015								
Instruction	\$ 12,436,248	\$ 2,861,487	\$ 1,407,567	\$ 3,299	\$ -	\$ -	\$ -	\$ 16,708,601
Research	110,818	11,095	41,698	-	-	-	-	163,611
Public service	152,055	32,009	92,104	113	-	-	-	276,281
Academic support	1,912,883	460,960	853,277	2,373	-	-	-	3,229,493
Student services	2,208,345	574,307	1,088,430	1,679	-	-	-	3,872,761
General institutional support	3,158,997	1,037,270	2,180,349	1,476	-	-	-	6,378,092
Operations and maintenance of plant	1,562,842	462,162	1,426,634	1,832,126	-	-	-	5,283,764
Student financial aid	-	-	-	-	2,812,150	-	-	2,812,150
Auxiliary enterprises	4,669,482	1,068,987	6,116,714	1,531,165	-	-	-	13,386,348
Depreciation	-	-	-	-	-	7,022,709	-	7,022,709
Other	-	-	-	-	-	-	293,248	293,248
Total	\$ 26,211,670	\$ 6,508,277	\$ 13,206,773	\$ 3,372,231	\$ 2,812,150	\$ 7,022,709	\$ 293,248	\$ 59,427,058
2014								
Instruction	\$ 12,582,136	\$ 2,553,536	\$ 1,483,445	\$ 3,641	\$ -	\$ -	\$ -	\$ 16,622,758
Research	15,209	(103)	4,676	-	-	-	-	19,782
Public service	172,585	31,554	98,315	507	-	-	-	302,961
Academic support	2,063,401	443,301	835,487	1,737	-	-	-	3,343,926
Student services	2,234,890	507,540	1,139,525	792	-	-	-	3,882,747
General institutional support	3,132,903	775,554	2,113,122	649	-	-	-	6,022,228
Operations and maintenance of plant	1,664,489	449,308	1,692,449	1,591,121	-	-	-	5,397,367
Student financial aid	-	-	-	-	2,884,914	-	-	2,884,914
Auxiliary enterprises	4,963,311	1,015,587	6,064,426	1,615,207	-	-	-	13,658,531
Depreciation	-	-	-	-	-	6,898,337	-	6,898,337
Other	-	-	-	-	-	-	306,012	306,012
Total	\$ 26,828,924	\$ 5,776,277	\$ 13,431,445	\$ 3,213,654	\$ 2,884,914	\$ 6,898,337	\$ 306,012	\$ 59,339,563

20. COMPONENT UNIT'S DISCLOSURES

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

SHEPHERD UNIVERSITY FOUNDATION, INC. NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Organization and Nature of Operations:

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

Basis of Accounting:

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

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

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

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

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

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.

Note 1. Summary of Significant Accounting Policies (Continued)

Investments:

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

Pledges Receivable:

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

Property and Equipment:

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

	<u>Years</u>
Equipment	3 – 7
Building and improvements	40

Advertising:

Advertising costs are expensed as incurred and amounted to \$2,919 and \$1,570 for the years ended June 30, 2015 and 2014, respectively.

Contributions:

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

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.

Note 1. Summary of Significant Accounting Policies (Continued)

Tax Exempt Status:

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

The Foundation follows the FASB Accounting Standards Codification, which provides guidance on accounting for uncertainty in income taxes recognized in an enterprise's financial statements. The guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on derecognition, classification, interest and penalties, accounting interim periods, disclosure and transition. As of June 30, 2015 and 2014, the Foundation had no uncertain tax positions that qualify for either recognition or disclosure in the Foundation's financial statements. The Foundation's policy is to recognize interest and penalties on unrecognized tax matters in income tax expense in the financial statements. Generally, the tax years before 2010 are no longer subject to examination by federal, state or local taxing authorities.

Use of Estimates in the Preparation of Financial Statements:

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

Concentrations of Credit Risk:

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

Statement of Cash Flows:

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

Risks:

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

Reclassifications:

Certain reclassifications of amounts previously reported have been made in the accompanying financial statements in order to make them conform to the classifications used for the year ended June 30, 2015.

Note 2. Pledges Receivable

	2015	2014
Receivable in less than one year	\$ 305,376	\$ 230,295
Receivable in one to five years	2,090,333	1,756,000
Receivable over five years	<u>1,706,000</u>	<u>2,306,000</u>
Total Pledges Receivable	4,101,709	4,292,295
Less: discount to present value	<u>(783,263)</u>	<u>(967,645)</u>
Net pledges receivable	<u>\$ 3,318,446</u>	<u>\$ 3,324,650</u>

Pledges receivable represent amounts due to the Foundation for legally enforceable pledges. These pledges are payable in full or in part through June 30, 2023.

Pledges receivable as of June 30, 2015 and 2014 consist of temporarily and permanently restricted net assets. These unconditional promises to give are scheduled to be received by the Foundation over the next several years, and are considered to be fully collectible.

Note 3. Investments

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

Investment securities at June 30, 2015 and 2014 are composed of the following:

<u>Description</u>	<u>Cost</u>	<u>Market</u>
<u>2015</u>		
Certificates of deposit	\$ 776,632	\$ 776,632
U.S. Government Securities	2,598,329	2,822,492
Corporate bonds and notes	1,805,238	1,747,479
Mutual funds	15,541,464	16,166,996
Stocks	<u>1,252,131</u>	<u>1,571,971</u>
Investment Securities	<u>\$ 21,973,794</u>	<u>\$ 23,085,570</u>
<u>2014</u>		
Certificates of deposit	773,356	773,356
U.S. Government Securities	7,425,058	7,924,128
Mutual funds	12,711,295	14,791,344
Stocks	<u>1,177,458</u>	<u>1,688,420</u>
Investment Securities	<u>\$ 22,087,167</u>	<u>\$ 25,177,248</u>

Note 3. Investments (Continued)

At June 30, 2015 and 2014, there was \$1,194,289 and \$669,429, respectively, of cash and cash equivalents held in the brokerage accounts available to be invested by the Foundation.

The investment in real estate is included in investments at net book value on the statement of financial position due to not having a readily available market value. Investment in real estate is comprised of the following:

<u>Description</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
2015			
Land	\$ 40,000	\$ -	\$ 40,000
Building	<u>160,202</u>	<u>79,433</u>	<u>80,769</u>
	<u>\$ 200,202</u>	<u>\$ 79,433</u>	<u>\$ 120,769</u>
2014			
Land	\$ 40,000	\$ -	\$ 40,000
Building	<u>160,202</u>	<u>75,428</u>	<u>84,774</u>
	<u>\$ 200,202</u>	<u>\$ 75,428</u>	<u>\$ 124,774</u>

Depreciation expense related to investment in real estate amounted to \$4,005 for years ended June 30, 2015 and 2014.

The following is a summary of the Foundation's investments at June 30, 2015 and 2014:

<u>Description</u>	<u>2015</u>	<u>2014</u>
Investment securities	\$ 23,085,570	\$ 25,177,248
Real estate	<u>120,769</u>	<u>124,774</u>
	<u>\$ 23,206,339</u>	<u>\$ 25,302,022</u>

The risks of economic uncertainty and market volatility underscore the level of investment risk associated with the Foundation's investments.

Note 4. Interest in Life Estate

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

Note 4. Interest in Life Estate (Continued)

commitment value of the property is based on the individual's life expectancy, which provides for a contribution value based upon the fact the donor is making a present commitment to a future charitable gift. The value of the property is based upon a third party appraisal value at the date of transfer of \$447,500, discounted by the present value of the fair market rental value of the property at the time of the transfer of \$1,700 per month. The present value was calculated based upon the life expectancy of the donor as calculated by the Social Security Life Expectancy tables and a 3.25% rate of return per the American Council on Gift Annuities. Assets held in life estates at June 30, 2015 and 2014 were \$318,582 and \$302,653, respectively, and are reported at the calculated present value on the Foundation's statement of financial position. Changes in the present value of the life estate will be reflected as changes in permanently restricted net assets in the Foundation's statement of activities.

Note 5. Equipment

Equipment consists of the following:

	<u>2015</u>	<u>2014</u>
Office equipment (at cost)	\$ 28,115	\$ 26,845
Accumulated depreciation	<u>(22,606)</u>	<u>(19,874)</u>
Net book value	<u>\$ 5,509</u>	<u>\$ 6,971</u>

Depreciation expense related to equipment was \$2,732 and \$1,165 for the years ended June 30, 2015 and 2014, respectively.

Note 6. Custodial Liabilities

The gross receipts and disbursements for the custodial accounts, the interest earned, gains on investments and the net transfers to/from the custodial accounts for the years ended June 30, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Custodial receipts	\$ 167,435	\$ 211,517
Custodial payments	(609,613)	(556,172)
Interest and gains on investments	<u>9,852</u>	<u>16,748</u>
Net increase (decrease) in custodial liabilities	<u>\$ (432,326)</u>	<u>\$ (327,907)</u>

Note 7. Gift Annuities

Gift annuities payable consist of the following liabilities:

	<u>2015</u>	<u>2014</u>
Daniel and Orpha Cowgill Annuity	\$ 25,996	\$ 28,802
James K. Wright, Jr. Annuity	19,859	23,653
Benjamin and Mary Lou Mehrling Annuity	3,462	3,766
James K. and Gladys L. Wright Annuity	11,210	12,298
Jack and Pat Egle Annuity	27,810	29,157
MEO Annuity	58,568	60,307
Keith Hess Annuity	-	<u>11,003</u>
Total	<u>\$ 146,905</u>	<u>\$ 168,986</u>

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. During the year ending June 30, 2015, the beneficiary of the Keith Hess Annuity passed away. In accordance with the gift annuity agreement, the residual liability at the date of the beneficiary's death was transferred into the permanently restricted net assets of the Foundation to create an endowed scholarship in the beneficiary's name.

Note 8. Employee Pension Plan

The Foundation participates in the TIAA - CREF retirement plan. The Foundation contributes to the plan based on a dollar for dollar match of the contributions of full time employees up to 6%. The cost recognized during the years ended June 30, 2015 and 2014 was \$9,501 and \$9,190, respectively.

Note 9. Conditional Promises to Give

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

Note 10. Concentration of Credit Risk

The Foundation places the majority of its demand deposits with one bank and at the current time does not limit the daily cash balances to the federally insured limits. From time to time during 2015 and 2014, the Foundation's bank account balances exceeded the federally insured limit. Management has evaluated this risk and considers it to be a normal business risk.

Note 11. Related Party

The Foundation is a component unit of Shepherd University (University). The Foundation utilizes space owned by the University but does not pay rent. In-kind revenue and expense of \$12,600 has been recorded for the use of this space for the years ended June 30, 2015 and 2014, respectively.

Note 12. Fair Value Measurements

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

- Level 1 – Represented by quoted prices that are available in an active market. Level 1 securities include highly liquid government bonds, treasury securities, and 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 includes the reporting entity's own assumptions about the market risk. Level 3 securities would include hedge funds, private equity securities, and private investments in public entities.

Note 12. Fair Value Measurements (Continued)

Fair value of assets measured on a recurring basis at June 30, 2015 and 2014 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
June 30, 2015				
Pledges receivable	\$ 3,318,446	\$ -	\$ -	\$ 3,318,446
Government securities				
US Treasuries	2,038,962	2,038,962	-	-
Agency Securities	461,591	-	461,591	-
Municipal Bonds	73,112	-	73,112	-
Mortgage Pools	248,827	-	248,827	-
Corporate Bonds	1,747,479	-	1,747,479	-
Mutual funds		-		
US Large Cap	2,222,931	2,222,931	-	-
US Small and Mid-Cap	1,491,201	1,491,201	-	-
International Equity	2,447,896	2,447,896	-	-
International Fixed Income	1,108,706	1,108,706	-	-
REIT's	725,901	725,901	-	-
Commodities	1,394,207	1,394,207	-	-
Global Equity	1,391,725	1,391,725	-	-
Hedged Equity	1,065,139	1,065,139	-	-
Master Limited Partnerships	909,483	909,483	-	-
Diversified Alternatives	2,369,744	1,483,038	-	886,706
Managed Futures	1,040,063	1,040,063	-	-
Stocks				
US Small and Mid-Cap	781,021	781,021	-	-
International Equity	790,950	790,950	-	-
	<u>\$ 25,627,384</u>	<u>\$ 18,891,223</u>	<u>\$ 2,531,009</u>	<u>\$ 4,205,152</u>

Note 12. Fair Value Measurements (Continued)

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
June 30, 2014				
Pledges receivable	\$ 3,324,650	\$ -	\$ -	\$ 3,324,650
Government securities				
US Treasuries	7,924,128	7,924,128		
Mutual funds				
US Large Cap	1,725,538	1,725,538	-	-
US Small and Mid-Cap	843,964	843,964	-	-
International Equity	167,456	167,456	-	-
Domestic Fixed Income	1,250,334	1,250,334	-	-
International Fixed Income	947,176	947,176	-	-
REIT's	897,945	897,945	-	-
Commodities	1,663,744	1,663,744	-	-
Global Equity	261,284	261,284	-	-
Hedged Equity	1,263,698	1,263,698	-	-
Master Limited Partnerships	1,443,685	1,443,685	-	-
Diversified Alternatives	2,328,143	1,818,515	-	509,628
Managed Futures	491,678	491,678	-	-
Stocks				
US Large Cap	760,230	760,230	-	-
US Small and Mid-Cap	297,317	297,317	-	-
International Equity	630,873	630,873	-	-
	<u>\$ 26,221,843</u>	<u>\$ 22,387,565</u>	<u>\$ -</u>	<u>\$ 3,834,278</u>

The fair values of Shepherd University Foundation's assets are measured using different techniques. The fair value for pledges receivable is determined by calculating the present value of the pledges expected to be received, using a discount rate of 6%. The fair value for the investments noted above is determined by reference to quoted market prices, other relevant information available generated by market transactions, 3rd party valuations, and estimated pricing models or discounted cash flows.

Total realized gain (loss) for the investments noted above that is included in the change in net assets at June 30, 2015 and 2014 were \$503,606 and \$91,054, respectively. The unrealized gain (loss) for the investments noted above included in the change in net assets at June 30, 2015 and 2014 was \$(1,890,359) and \$1,411,972, respectively.

Note 12. Fair Value Measurements (Continued)

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) consist of pledges receivable and funds invested in Collins Capital Low Volatility Performance Fund II, Ltd. (Collins Capital Fund) and Ironwood Institutional Multi-Strategy Fund, LLC (Ironwood Fund), which are speculative fund of funds. The changes in Level 3 assets are as follows for the years ended June 30, 2015 and 2014:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	June 30,			
	Pledges Receivable	Collins Capital Fund	Ironwood Fund	Total
Fair Value as of June 30, 2014	\$ 3,324,650	\$ -	\$ 509,628	\$ 3,834,278
New pledges	25,999	-	-	25,999
Payments received	(216,585)	-	-	(216,585)
Change in valuation	184,382	-	-	184,382
Purchase of funds	-	-	373,926	373,926
Unrealized gain	-	-	3,152	3,152
Fair Value as of June 30, 2015	<u>\$ 3,318,446</u>	<u>\$ -</u>	<u>\$ 886,706</u>	<u>\$ 4,205,152</u>
Fair Value as of June 30, 2013	\$ 189,563	\$ 537,659	\$ -	\$ 727,222
New pledges	4,250,000	-	-	4,250,000
Pledges written off	(4,333)	-	-	(4,333)
Payments received	(150,590)	-	-	(150,590)
Change in valuation	(959,990)	-	-	(959,990)
Purchase of funds	-	-	500,000	500,000
Sale of funds	-	(555,233)	-	(555,233)
Realized gain	-	5,233	-	5,233
Unrealized gain	-	12,341	9,628	21,969
Fair Value as of June 30, 2014	<u>\$ 3,324,650</u>	<u>\$ -</u>	<u>\$ 509,628</u>	<u>\$ 3,834,278</u>

The amount of total gains or losses included in the changes in net assets for the years ending June 30, 2015 and 2014 were \$3,152 and \$27,202, respectively.

Note 13. Endowments

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

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

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

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

The endowments are invested consistent with an investment policy statement that is monitored by the Foundation's Directors. To satisfy the long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Funds in the endowment are primarily invested in U.S. Government Securities and managed equity funds with several investment managers using an investment philosophy that maintains equities in the range of 48-58% of the total fund, real estate in the range of 0% to 9%, fixed income securities in the range of 36% to 46%, and cash in the range of 0% to 7%.

Endowment net assets consisted of donor permanently restricted endowment funds of \$24,537,466 and \$24,137,252 as of June 30, 2015 and 2014, respectively. The investment income derived from the endowment funds are primarily restricted to providing scholarships for students.

During the year ended June 30, 2014, the Foundation, upon request of the original donor transferred \$31,279, of which \$30,723 was original contributions from the donor, to an unrelated foundation.

Note 13. Endowments (Continued)

The changes in endowment net assets for the years ended June 30, 2015 and 2014 were as follows:

Endowment net assets at July 1, 2013	\$ 23,268,017
Investment income	20,159
Contributions	836,807
Net assets released from restrictions	(31,279)
Transfers	<u>43,548</u>
Endowment net assets at June 30, 2014	\$ 24,137,252
Investment income	25,032
Contributions	354,358
Transfers	<u>20,824</u>
Endowment net assets at June 30, 2015	<u>\$ 24,537,466</u>

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 \$3,000 and \$1,000 as of June 30, 2015 and 2014, respectively. These deficiencies resulted from unfavorable market fluctuations.

SHEPHERD UNIVERSITY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULES OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND CONTRIBUTIONS

Schedule of Proportionate Share of TRS Net Pension Liability

Measurement Date	University's Proportionate Share as a percentage of Net Pension Liability	University's Proportionate Share	State's Proportionate Share	Total Proportionate Share	University's Covered Employee Payroll	University's Proportionate Share as a percentage of Covered Payroll	University's Plan Fiduciary Net Position as a percentage of Total Pension Liability
June 30, 2014	0.01302%	\$ 449,352	\$ 1,015,266	\$ 1,464,618	\$ 486,027	92.45412%	65.95%

Schedule of Employer Contributions

Measurement Date	Actuarily Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contributions as a percentage of Covered Payroll
June 30, 2014	\$ 59,257	\$ 59,998	\$ (741)	\$ 486,027	12.34458%

Notes to Required Supplementary Information

For the Year Ended June 30, 2015

There are no factors that affect trends in the amounts reported, such as change of benefits terms or assumptions. With only one year reported in the required supplementary information, there is no additional information to include in notes. Information, if necessary, can be obtained from the CPRB Comprehensive Annual Financial Report.

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*

Board of Governors
Shepherd University
Shepherdstown, West Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of Shepherd University (the University), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated February 2, 2016. Our report includes a reference to other auditors who audited the financial statements of Shepherd University Foundation, Inc., as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of Shepherd University Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control, **2015-001** described in the accompanying schedule of findings and responses that we consider to be a material weakness..

Compliance and Other Matters

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

Shepherd University's Response to Finding

The University's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The University's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

**CliftonLarsonAllen LLP**

February 2, 2016
Baltimore, Maryland

Shepherd University
Schedule of Findings
June 30, 2015

Finding 2015-01:

Accounts Receivable

Criteria: The University should be able to reconcile the accounts receivable subsidiary ledger to the general ledger and identify the cause of any reconciling differences.

Condition: The University continues to improve upon their reconciliation process with accounts receivable from the prior year, but still is unable to reconcile and identify the cause of reconciling differences

Reconciliation:

The reconciliation of the accounts receivable sub-ledger to the general ledger identified differences which have not been resolved. To ensure that the University is reporting accurate financial data and amounts due to them, all reconciling items should be properly accounted for between the general ledger and sub-ledger. Management has established procedures to reconcile the sub-ledger to the general ledger, but they have been unable to reconcile the two systems nor determine the causes of the variances.

Cause: Due to complications from the Chart of Accounts conversion, the University had issues reconciling and identifying reconciling differences. It was noted that there is a control in place to reconcile but the control is not effective at this time as unidentifiable reconciling items still exist. The University continues to improve the control process and is working to identify and reduce reconciling items.

Effect: Failure to properly reconcile the accounts receivable to the sub-ledger may result in the misstatement of accounts receivable.

Recommendation: The University should review current policies and procedures and make changes where necessary to ensure all reconciling items between the general ledger and sub-ledger are accounted for properly.

Management Response: Management agrees with this finding.

The University contracted with Ellucian for a review of the Students Accounts Receivable set-up, processing and reconciliation process. Staff spent time with the consultant in October, December and January to conduct a comprehensive review of Accounts Receivable Detail Codes, payment processing and the interface to the general ledger. This resulted in the recommendation of several changes to the set-up and processing of PELL, Scholarships, Waivers and Third Party Payments. These recommendations are currently in the test phase.

The consultant, working with the staff, also identified specific issues associated with the Chart of Accounts conversion. Corrections were tested and are ready to move into the production environment.

The consultant worked with staff to provide a better understanding of the accounts receivable reconciliation process and report analysis. The University is currently applying this knowledge.

Finance and Information Technology are working together to find resolutions to potential issues that may arise as these changes are moved from the test to production phase.