

# Shepherd University

Financial Statements as of and for the Years Ended  
June 30, 2017 and 2016, and Independent Auditors'  
Reports

# SHEPHERD UNIVERSITY

## TABLE OF CONTENTS

---

	<b>Page</b>
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, 2017 AND 2016:	
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 — Consolidated Statements of Financial Position	17
Component Unit — Consolidated Statements of Activities	18-19
Notes to Financial Statements	20-64
Required Supplementary Information	65
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>	66-67

## 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, 2017 and 2016, 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 represents 100% of the assets, revenues and net assets of the discretely presented 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.

To the Governing Board  
Shepherd University

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 auditor, 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, 2017 and 2016, 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.

**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 65, 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 October 13, 2017, 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 solely 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 the effectiveness of the University's 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  
October 13, 2017

# Shepherd University

## Management Discussion and Analysis

Fiscal Years 2017 and 2016

### **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 2017 data compared to the financial statements presented for fiscal year 2016. 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, 2017, and 2016. 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 any accumulated depreciation and related debts. 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		
	2017	2016	2015
<b>Assets:</b>			
Cash	\$ 14,566	\$ 16,260	\$ 17,879
Other Current Assets	1,603	1,938	1,456
Noncurrent Assets	123,315	127,425	132,102
Total Assets	139,484	145,623	151,437
Total Deferred Outflows of Resources	87	54	43
Total Assets and Deferred Outflow of Resources	139,571	145,677	151,480
<b>Liabilities:</b>			
Current Liabilities	7,950	7,718	8,160
Noncurrent Liabilities	51,484	52,120	53,260
Total Liabilities	59,434	59,838	61,420
Total Deferred Inflows of Resources	195	287	235
Total Liabilities and Deferred Inflows of Resources	59,629	60,125	61,655
<b>Net Position:</b>			
Net Investment in Capital Assets	81,731	85,100	88,289
Restricted - Expendable	442	281	322
Unrestricted	(2,231)	170	1,214
Total Net Position	\$ 79,942	\$ 85,551	\$ 89,825

#### *Assets*

Total Assets decreased approximately 4.18 percent to \$139.6 million compared to \$145.6 million for 2016 compared to a decline of 3.87 percent, \$5.8 million from 2015 to 2016. However, within current assets, cash decreased by \$1.69 million from the previous year. This continued the trend of from 2015 to 2016 of cash decline of \$1.6 million. The decrease in cash is primarily due to the Operational Expenses exceeding Revenues. The continuing decline in student enrollments has resulted in a decline in Tuition & Fee revenues in spite of a 5% Tuition & Fee increase in 2017.

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. The University again deferred any

large capital projects in 2017 that would have offset accumulated depreciation. Non-current assets decreased by \$4.11 million compared to 2016 continuing the trend from 2015 to 2016 which declined \$4.7 million.

The net result of fiscal year 2017 activities resulted in a \$6.1 million decrease in total assets.

#### *Deferred Outflows of Resources:*

There was a 61.1% increase in Deferred Outflows from FY 2016 to FY 2017. Deferred outflows of resources are the consumption of net position by the University that is applicable to future years. In 2017, the University had deferred outflows of resources related to pensions of \$87,680 as a direct result of the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pension*. This deferred outflow of resources directly relate to the required contributions the University has made on behalf of employees 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 stayed relatively flat, decreasing 0.67%, \$404,000, from 2016 to 2017 while they declined 2.48%, \$1.5 million from 2015 to 2016.

Significant changes include:

- A decrease in Accounts payable of \$319,333 from 2016 to 2017 due to the reduction in non-personnel spending and an increased use of the PCard.
- An increase in Accrued Liabilities of \$260,000 due primarily to an increase in accrued payroll due to an increase in salary and benefits as of fiscal year-end.
- An increase in the OPEB liability of \$306,344 due to an updated actuarial 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 \$1,172,000 and a decrease in Capital Lease Obligations of \$142,000 resulting from principal payments. There was also an increase in our note payable of \$675,000 resulting from an interest free note from the Commission for demolition of a building.

#### *Deferred Inflows of Resources:*

Deferred inflows of resources are the acquisitions of net position by the University that are applicable to future years. In 2017, the University had deferred inflows of resources related to pensions of \$195,219, as a direct result of the implementation of GASB Statement No. 68.

#### *Net Position*

From 2016 to 2017 total net position decreased by \$5.6 million. Unrestricted net position overall decreased significantly by \$2.4 million as a result of the implementation of GASB No. 68 to record the unfunded pension liabilities and the continuing decline in operating results due to the enrollment declines and decrease in State appropriations. This continued the trend from 2014 to 2015 in which there was a decline in net position of \$4.3 million.

## 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)

	Years Ended June 30,		
	2017	2016	2015
Operating Revenues	\$ 39,192	\$ 40,808	\$ 43,174
Operating Expenses	<u>58,432</u>	<u>59,002</u>	<u>59,427</u>
Operating Loss	(19,240)	(18,194)	(16,253)
Nonoperating Revenues - Net	<u>13,630</u>	<u>13,920</u>	<u>14,683</u>
Loss before Other Revenues, Expenses, Gains or Losses	(5,610)	(4,274)	(1,570)
Capital and Bond Proceeds from State	<u>-</u>	<u>-</u>	<u>1</u>
Increase (Decrease) in Net Position	(5,610)	(4,274)	(1,569)
Net Position - Beginning of Year	85,551	89,825	92,089
Cummulative effect of change in accounting principle	<u>-</u>	<u>-</u>	<u>(695)</u>
Net Position - Beginning of Year, restated	<u>85,551</u>	<u>89,825</u>	<u>91,394</u>
Net Position - End of Year	<u>\$ 79,941</u>	<u>\$ 85,551</u>	<u>\$ 89,825</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 2017 decreased by \$1.6 million or 4 percent compared to the 5.5%, \$2.4 million decline from 2015 to 2016.

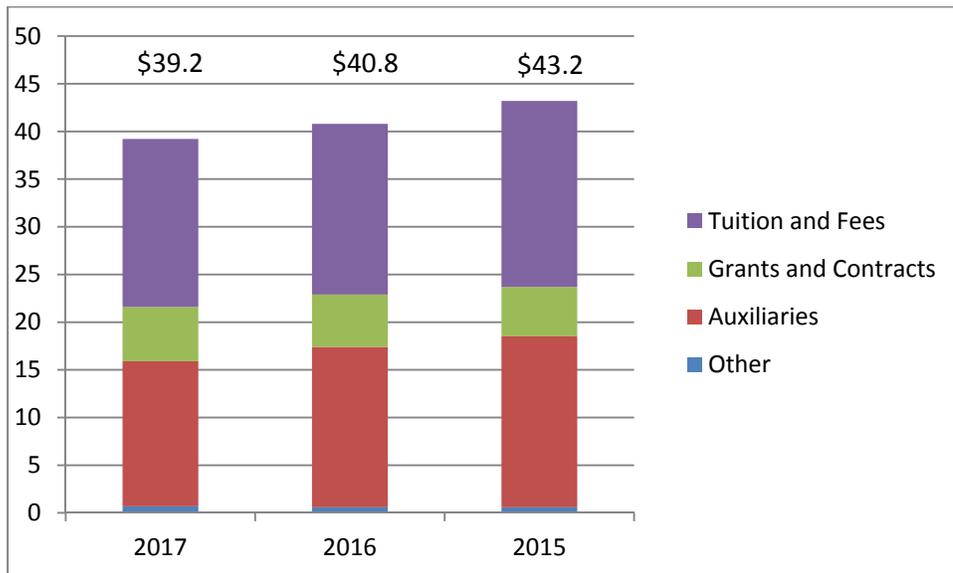
During fiscal year 2017, student tuition and fees revenue decreased from 2016 by \$276,000 or 1.5 percent due to a combination of a 5.0 percent tuition increase and a continuing enrollment shortfall. Overall, student tuition and fees as a percentage of total operating revenues increased from 43.7 percent to 44.8 percent.

Grants and contracts comprise approximately 14.4 percent of the operating revenues and total \$5.7 million in 2017. This is a \$129,000 increase from 2016, which is a result of an increase in federal grants to \$541,000.

Auxiliary Enterprise Revenue, which includes resources generated by the operation of the bookstore, wellness center, dining services and residence halls, experienced a decrease of \$1,609,021 or 9.6 percent in 2017. The decrease is attributed to the enrollment shortfall experience throughout the year. This continues the declining trend from 2015 to 2016 of 8.57%, \$1.7 million.

**Operating Revenues – FY 2017-2015**

**(In millions)**



*Operating Expenses:*

Overall, 2017 operating expenses again remained relatively flat when compared to 2016, decreasing slightly by \$570,000 compared to the relatively flat decrease of \$425,000 from 2015 to 2016.

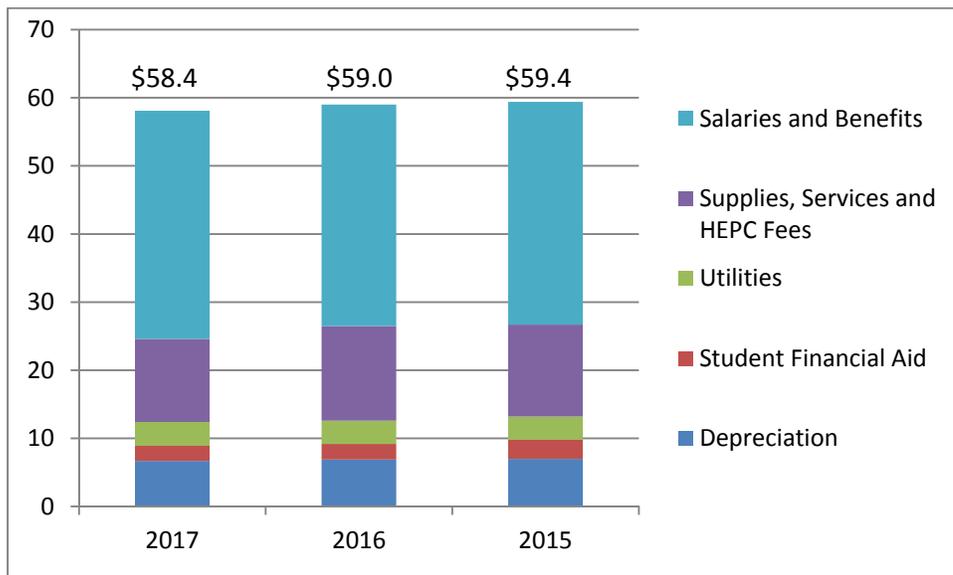
Salaries and benefits represent 57.6 percent of the total 2017 operating expenses, a 3.2% increase over 2016. Employee compensation, including benefits, increased by \$1.0 million compared to 2016. This was the result of the lifting of the previous year's hiring freeze, the full year impact of the previous mid-year 2% across the

board salary increase, salary equity adjustments and the filling of prior year administrative vacancies. This gain in salaries and benefits was offset by reductions in Supplies and other services, \$1.4 million, Student Financial Aid, \$116,000 and Depreciation expense, \$212,000 and Fees assessed by the Commission, \$17,000. There was a slight increase in Utilities, \$100,000, year-over-year due to the construction of the new residence hall project.

The University continued to implement University wide cost containment strategies to offset fixed cost increases for 2017.

### Operating Expenses – FY 2017-2015

(In millions)



#### *Non-operating Revenues (Expenses)*

Net Nonoperating Revenues slightly decreased by \$290,000, 2% in 2017.

Interest Expense increased \$256,000 due to the refinancing of the 2005 and 2007 Bonds. Gifts increased \$252,000 while PELL decreased \$297,000.

The net result of operating and non-operating revenues and expenses was a loss of approximately \$5.6 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 \$32.7 million and payments to suppliers of \$13 million. Net cash used for operating activities increased by \$1.4 million from 2017 to 2016 primarily due to the increase in salaries and benefits. The continuing decline in enrollment resulted in the reduction in Student Tuition & Fees and Auxiliary Revenues of nearly \$2 million dollars. Payments to Suppliers & Utilities also decreased by \$652,000. In addition, Contract & Grant revenues increased by \$316,000 over 2016.

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 a slight decrease of \$77,000 due to a mid-year rescission in state appropriations. Due to the continuing decline in student enrollments PELL declined \$297,000. Gift receipts are up about \$252,000 over 2016.

Capital financing activities represent funds that were used to purchase or add value to capital assets. Even though as in 2016, the University did not undertake any substantial capital projects for 2017, the 2005 and 2007 bonds were refinanced to take advantage of reduced interest rates. Capital asset purchases were kept to a minimum, with a \$209,000 reduction over 2016. A five year no-interest loan from HEPC for \$750,000 was secured to help with the Sara Cree building demolition in 2016.

Overall cash and cash equivalents at 2017 year-end decreased \$1.7 million.

### Condensed Consolidated Schedules of Cash Flows

(In thousands)

	Years Ended June 30,		
	2017	2016	2015
Net cash (used in) provided by:			
Operating activities	\$ (12,413)	\$ (11,049)	\$ (8,641)
Noncapital financing activities	15,610	15,688	16,986
Capital and related financing activities	(5,007)	(6,320)	(6,700)
Investing activities	<u>117</u>	<u>61</u>	<u>21</u>
Increase (decrease) in Cash	<u>(1,693)</u>	<u>(1,620)</u>	<u>1,666</u>
Cash and cash equivalents - beginning of year	<u>16,259</u>	<u>17,879</u>	<u>16,213</u>
Cash and cash equivalents - end of year	<u>\$ 14,566</u>	<u>\$ 16,259</u>	<u>\$ 17,879</u>

## **Economic Outlook**

Current and foreseeable economic conditions continue to place pressure on Shepherd's financial capabilities. Federal financial aid requirements have increased the standards for student assistance eligibility. As such, the number of students eligible to continue receiving financial aid has decreased and continues to adversely affect enrollment. This continued to be a challenge going into 2017 and will continue for the foreseeable future.

Due to the declining State of West Virginia revenues, Shepherd University's state appropriation continues to be reduced. This reduction in State investment was accounted for in building the University's FY18 operating budget. Although Shepherd's reliance upon state investment 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.

Shepherd continues to develop and offer new market-driven programs. The first full year of implementation for the new degree programs in Data Analytics and Global Studies occurred in 2017 and Engineering Science and Contemporary Theater Studies were finalized for starting in Fall 2017.

The University continues to focus on enhancing its enrollment through increased retention by establishing a Retention Interventions Team (RIT) giving every undergraduate a dedicated staff advocate. Rigorous efforts are being 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. As a third enrollment and revenue growth strategy the University is planning for improved on-campus housing options for our students.

The Shepherd University Advancement Office in partnership with the Shepherd University Foundation has increased efforts 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 continue to be thoughtful and thorough to balance student affordability and the need for increased revenue. Because of the continuing 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.

## **Contacting The University's Financial Management**

This financial report is designed to provide a general overview of the University's finances and to demonstrate the University's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the University's Vice President for Finance / Chief Financial Officer at (304) 876-5287, or by mail at:

Shepherd University  
W. Anthony Major, Jr.  
Vice President for Finance / Chief Financial Officer  
P.O. Box 5000  
Shepherdstown, WV 25443-5000

# SHEPHERD UNIVERSITY

## STATEMENTS OF NET POSITION AS OF JUNE 30, 2017 AND 2016

---

	2017	2016
<b>ASSETS AND DEFERRED OUTFLOWS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 14,565,622	\$ 16,259,698
Accounts receivable — net	1,080,786	1,238,418
Due from Commission	13,037	42,941
Loans to students — current portion	100,091	100,091
Inventories	<u>409,110</u>	<u>557,019</u>
Total current assets	<u>16,168,646</u>	<u>18,198,167</u>
<b>NONCURRENT ASSETS:</b>		
Other Receivable	254,640	306,858
Loans to students — net of allowance of \$462,518 and \$434,318 in 2017 and 2016, respectively	353,088	401,897
Capital assets — net	<u>122,707,404</u>	<u>126,716,045</u>
Total noncurrent assets	<u>123,315,132</u>	<u>127,424,800</u>
<b>TOTAL ASSETS</b>	<u>139,483,778</u>	<u>145,622,967</u>
<b>TOTAL DEFERRED OUTFLOW OF RESOURCES:</b>		
Deferred outflows related to pensions	<u>87,680</u>	<u>53,708</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES</b>	<u>\$ 139,571,458</u>	<u>\$ 145,676,675</u>

(Continued)

# SHEPHERD UNIVERSITY

## STATEMENTS OF NET POSITION AS OF JUNE 30, 2017 AND 2016

---

	2017	2016
<b>LIABILITIES, DEFERRED INFLOWS AND NET POSITION</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 1,188,980	\$ 1,508,313
Accrued liabilities	3,096,493	2,836,010
Compensated absences — current portion	782,163	768,650
Unearned revenues	815,126	869,099
Deposits held in custody for others	147,722	138,594
Bonds payable — current portion	1,625,183	1,455,000
Note payable and capital lease obligations — current portion	<u>294,850</u>	<u>142,462</u>
Total current liabilities	<u>7,950,517</u>	<u>7,718,128</u>
<b>NONCURRENT LIABILITIES:</b>		
Advances from federal sponsors	498,861	509,471
Compensated absences	407,363	440,979
Other postemployment benefits liability	11,130,356	10,824,012
Net pension liability	391,112	327,328
Bonds payable, net of current portion	38,209,097	39,550,925
Note payable and capital lease obligations, net of current portion	<u>847,223</u>	<u>467,073</u>
Total noncurrent liabilities	<u>51,484,012</u>	<u>52,119,788</u>
Total liabilities	<u>59,434,529</u>	<u>59,837,916</u>
<b>DEFERRED INFLOW OF RESOURCES:</b>		
Deferred inflows related to pensions	<u>195,219</u>	<u>287,463</u>
<b>NET POSITION:</b>		
Net Investment in capital assets	<u>81,731,051</u>	<u>85,100,585</u>
<b>Restricted — expendable:</b>		
Loans	94,361	95,672
Other restricted	<u>347,568</u>	<u>184,840</u>
Total restricted - expendable	<u>441,929</u>	<u>280,512</u>
Unrestricted	<u>(2,231,269)</u>	<u>170,199</u>
Total net position	<u>79,941,711</u>	<u>85,551,296</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION</b>	<u>\$ 139,571,459</u>	<u>\$ 145,676,675</u>

See notes to financial statements.

(Concluded)

# SHEPHERD UNIVERSITY

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

---

	2017	2016
OPERATING REVENUES:		
Student tuition and fees — net of scholarship allowance of \$10,990,322 and \$11,028,449 in 2017 and 2016, respectively	\$ 17,574,478	\$ 17,850,092
Contracts and grants:		
Federal	1,739,058	1,197,769
State	3,918,735	4,324,949
Private	26,694	31,664
Interest on student loans receivable	18,951	14,776
Sales and services of educational activities	50,491	45,516
Auxiliary enterprise revenue — net of scholarship allowance of \$869,902 and \$908,379 in 2017 and 2016, respectively	15,210,786	16,819,807
Other operating revenues	<u>653,420</u>	<u>523,113</u>
 Total operating revenues	 <u>39,192,613</u>	 <u>40,807,686</u>
OPERATING EXPENSES:		
Salaries and wages	27,063,149	26,177,277
Benefits	6,464,841	6,302,581
Supplies and other services	12,250,664	13,624,775
Utilities	3,511,955	3,412,297
Student financial aid — scholarships and fellowships	2,164,214	2,279,367
Depreciation	6,718,282	6,929,902
Fees assessed by the Commission for operations	<u>259,299</u>	<u>276,004</u>
 Total operating expenses	 <u>58,432,404</u>	 <u>59,002,203</u>
 OPERATING LOSS	 <u>(19,239,791)</u>	 <u>(18,194,517)</u>

(Continued)

# SHEPHERD UNIVERSITY

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

---

	2017	2016
NONOPERATING REVENUES (EXPENSES):		
State appropriations	\$ 9,360,954	\$ 9,438,077
Payments on behalf of the University	69,507	52,512
Federal Pell grants	4,786,341	5,083,829
Investment income	116,798	61,318
Interest expense	(2,191,770)	(1,935,326)
Fees assessed by the Commission for debt service	(18,520)	(37,820)
Gifts	1,511,806	1,259,448
Gain (loss) on disposal of equipment	(4,910)	23
Other	-	(1,557)
	<u>13,630,206</u>	<u>13,920,504</u>
Net nonoperating revenues		
	<u>(5,609,585)</u>	<u>(4,274,013)</u>
DECREASE IN NET POSITION		
NET POSITION — Beginning of year	<u>85,551,296</u>	<u>89,825,309</u>
NET POSITION — End of year	<u>\$ 79,941,711</u>	<u>\$ 85,551,296</u>
See notes to financial statements.		(Concluded)

# SHEPHERD UNIVERSITY

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	\$ 17,439,909	\$ 17,849,251
Contracts and grants	5,761,579	5,445,769
Payments to and on behalf of employees	(32,704,325)	(31,941,569)
Payments to suppliers	(12,958,429)	(13,716,158)
Payments to utilities	(3,521,305)	(3,415,361)
Payments for scholarships and fellowships	(2,163,011)	(2,279,367)
Loans issued to students	(52,000)	(144,104)
Collection of loans to students	119,760	90,940
Sales and service of educational activities	50,492	45,516
Auxiliary enterprise charges	15,219,914	16,769,398
Fees assessed by the Commission	(259,299)	(276,004)
Other receipts — net	<u>653,420</u>	<u>523,113</u>
Net cash used in operating activities	<u>(12,413,295)</u>	<u>(11,048,576)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	9,360,954	9,438,077
Federal Pell grants	4,786,341	5,083,829
Gifts	1,511,806	1,259,448
Federal student loan program — direct lending receipts	18,146,795	19,764,104
Federal student loan program — direct lending payments	<u>(18,195,803)</u>	<u>(19,857,528)</u>
Net cash provided by noncapital financing activities	<u>15,610,093</u>	<u>15,687,930</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Capital note and bond proceeds from the State	750,000	-
Interest paid on capital debt and leases	(2,191,770)	(1,935,326)
Purchases of capital assets	(2,608,018)	(2,817,020)
Bond and lease proceeds	35,282,000	-
Principal paid on capital debt and leases	(36,221,364)	(1,530,114)
Withdrawals from (deposits to) noncurrent cash and cash equivalents	-	-
Fees assessed by the Commission	<u>(18,520)</u>	<u>(37,820)</u>
Net cash used in capital financing activities	<u>(5,007,672)</u>	<u>(6,320,280)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on investments	<u>116,798</u>	<u>61,318</u>
Net cash provided by investing activities	<u>116,798</u>	<u>61,318</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(1,694,076)	(1,619,608)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>16,259,698</u>	<u>17,879,306</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 14,565,622</u>	<u>\$ 16,259,698</u>

(Continued)

**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

---

	<b>2017</b>	<b>2016</b>
<b>RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED</b>		
<b>IN OPERATING ACTIVITIES:</b>		
Operating loss	\$ (19,239,791)	\$ (18,194,517)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	6,718,282	6,929,902
Net accretion of premiums/discounts on bonds payable	(449,743)	(25,627)
Effect of changes in operating Assets and Liabilities:		
Accounts receivables — net	206,640	(469,823)
Other receivable	52,218	-
Prepaid expense	-	57,902
Loans to students — net	48,809	(67,940)
Due from the Commission	29,904	(25,031)
Inventories	147,909	47,876
Accounts payable	(425,868)	(173,747)
Accrued liabilities	260,484	270,836
Compensated absences	(20,104)	(6,381)
Other postemployment benefits liability	306,344	592,687
Net pension liability	7,075	(27,374)
Deferred revenue	(53,973)	95,260
Deposits held in custody for others	9,128	(50,409)
Advances from federal sponsors	(10,609)	(2,190)
	<u>                    </u>	<u>                    </u>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b><u>\$ (12,413,295)</u></b>	<b><u>\$ (11,048,576)</u></b>
<b>NONCASH TRANSACTIONS</b>		
Property additions in accounts payable	\$ 106,535	\$ (630,128)

See notes to financial statements.

(Concluded)

# SHEPHERD UNIVERSITY

## SHEPHERD UNIVERSITY FOUNDATION, INCORPORATED AND SUPPORTING ORGANIZATION A COMPONENT UNIT OF SHEPHERD UNIVERSITY CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2017 AND 2016

	2017	2016
<b>ASSETS</b>		
Cash and cash equivalents	\$ 8,632,553	\$ 23,098,204
Pledges receivable (net of present value adjustment)	3,584,513	3,198,673
Other receivables	837	187
Accrued interest receivable	21,019	32,829
Prepaid expenses	1,582	1,582
Investments	23,025,064	21,523,684
Interest in life estate	352,032	335,035
Construction in Progress	18,927,071	2,001,552
Equipment, net	<u>5,055</u>	<u>6,132</u>
 Total Assets	 <u>\$ 54,549,726</u>	 <u>\$ 50,197,878</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 1,747,003	\$ 1,049,505
Retainage payable	805,935	54,895
Accrued payroll	-	11,866
Accrued interest	113,748	15,619
Custodial liabilities	1,163,036	1,574,435
Gift annuities payable	122,146	134,983
Loans payable	<u>22,176,789</u>	<u>21,817,422</u>
 Total Liabilities	 <u>\$ 26,128,657</u>	 <u>\$ 24,658,725</u>
<b>NET ASSETS</b>		
Unrestricted	\$ (6,230,161)	\$ (6,772,981)
Temporarily restricted	8,703,956	7,079,385
Permanently restricted	<u>25,947,274</u>	<u>25,232,749</u>
 Total Net Assets	 <u>\$ 28,421,069</u>	 <u>\$ 25,539,153</u>
 Total Liabilities and Net Assets	 <u>\$ 54,549,726</u>	 <u>\$ 50,197,878</u>

See notes to financial statements.

# SHEPHERD UNIVERSITY

**SHEPHERD UNIVERSITY FOUNDATION, INCORPORATED  
AND SUPPORTING ORGANIZATION  
A COMPONENT UNIT OF SHEPHERD UNIVERSITY  
CONSOLIDATED STATEMENT OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	<b>2017</b>	<b>2016</b>
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
<b>SUPPORT AND REVENUE</b>		
Other revenue	\$ 26,720	\$ 23,311
Interest and dividends	47,161	-
Net realized and unrealized gains on investments	1,594,140	(1,472,419)
Transfers	(110,400)	(52,414)
Net assets released from restrictions	<u>1,864,385</u>	<u>1,585,938</u>
Total Revenue and Other Support	<u>3,422,006</u>	<u>84,416</u>
<b>EXPENSES</b>		
Program services:		
Scholarships and awards	1,757,190	1,509,129
College support	107,195	76,809
General and administrative:		
Salaries	344,110	333,748
Investment management fees	104,369	127,948
Printing and reproduction costs	28,694	30,593
Payroll taxes and benefits	57,551	51,440
Depreciation	7,084	6,509
Interest	359,367	21,485
Administrative expense	2,102	2,162
Rent	12,600	12,600
Office supplies and postage	7,954	9,798
Insurance	11,247	6,499
Changes in gift annuities	9,024	9,935
Professional fees	32,578	51,653
Staff training	150	263
Program development	30,744	30,199
Telephone	2,241	2,621
Technology	3,635	2,407
Bad debt expense	-	3,000
Miscellaneous	<u>1,351</u>	<u>727</u>
Total Expenses	<u>2,879,186</u>	<u>2,289,525</u>
Change In Unrestricted Net Assets	<u>542,820</u>	<u>(2,205,109)</u>

(Continued)

# SHEPHERD UNIVERSITY

**SHEPHERD UNIVERSITY FOUNDATION, INCORPORATED  
AND SUPPORTING ORGANIZATION  
A COMPONENT UNIT OF SHEPHERD UNIVERSITY  
CONSOLIDATED STATEMENT OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	<b>2017</b>	<b>2016</b>
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>		
<b>SUPPORT AND REVENUE</b>		
Cash contributions	\$ 2,194,774	\$ 1,092,075
Stock contributions	464,310	12,177
Other non-cash contributions	75,813	6,125
Other revenue	27,553	10,613
Interest and dividends	506,208	588,215
Net realized and unrealized gains on investments	114,510	142,083
Transfers	105,788	76,653
Net assets released from restrictions	<u>(1,864,385)</u>	<u>(1,585,938)</u>
Change in Temporarily Restricted Net Assets	<u>1,624,571</u>	<u>342,003</u>
<b>CHANGES IN PERMANENTLY RESTRICTED NET ASSETS</b>		
<b>SUPPORT AND REVENUE</b>		
Cash contributions	573,276	670,709
Stock contributions	97,951	6,611
Other non-cash contributions	16,997	16,454
Interest and dividends	21,689	25,748
Transfers	<u>4,612</u>	<u>(24,239)</u>
Change in Permanently Restricted Net Assets	<u>714,525</u>	<u>695,283</u>
Decrease in Net Assets	<u>2,881,916</u>	<u>(1,167,823)</u>
NET ASSETS - Beginning of year	<u>25,539,153</u>	<u>26,706,976</u>
NET ASSETS - End of year	<u>\$ 28,421,069</u>	<u>\$ 25,539,153</u>

(Concluded)

See notes to financial statements.

**NOTES TO FINANCIAL STATEMENTS  
AS OF AND FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

---

**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 provides 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, 2016 and 2015, 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 14 and 19).

**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, 2017 or 2016.

*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.

**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.

**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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 13).

**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, 2017 and 2016, the University had deferred outflows of resources related to pensions of \$87,680 and \$53,708, respectively (see Note 13).

**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, 2017 and 2016, the University had deferred inflows of resources related to pensions of \$195,219 and \$287,463, respectively (see Note 13).

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**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 2017 and 2016, the University received and disbursed approximately \$19 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 2017 and 2016, the University received and disbursed \$4,966,732 and \$5,266,767, 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.

**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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**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.

**Newly Adopted Statements Issued by the Governmental Accounting Standards Board** — The GASB has issued Statement No. 80, *Blending Requirements for Certain Component Units*, which is effective for fiscal years beginning after June 15, 2016. This statement amends the blending requirements for the financial presentation of component units of all state and local governments established in Statement No. 14, *The Financial Reporting Entity*, as amended. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The University has determined that Statement No. 80 does not apply to its component units and has no effect on its financial statements.

The GASB has also issued Statement No. 81, *Irrevocable Split-Interest Agreements*, which is effective for fiscal years beginning after December 15, 2016. This statement establishes recognition and measurement requirements for irrevocable split-interest agreements created through trusts – or other legally enforceable agreements with characteristics that are equivalent to irrevocable split-interest agreements – in which a donor irrevocably transfers resources to an intermediary. The intermediary administers these resources for the unconditional benefit of a government or at least one other beneficiary. The University has determined it has no irrevocable split-interest agreements.

The GASB has also issued Statement No. 86, *Certain Debt Extinguishment Issues*, which is effective for fiscal years beginning after June 15, 2017. Statement No. 86 provides guidance for transactions in which cash and other monetary assets acquired with existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. The adoption of this standard had no effect on the University's financial statements.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Recent Statements Issued by the Governmental Accounting Standards Board** — 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. 83, *Certain Asset Retirement Obligations*, which is effective for fiscal years beginning after June 15, 2018. Statement No. 83 establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for legally enforceable liabilities associated with the retirement of tangible capital assets. Examples of asset retirements covered under this standard are the decommissioning of a nuclear reactor or the dismantling and removal of sewage treatment plants as required by law. The University has not yet determined the effect that the adoption of GASB Statement No. 83 may have on its financial statements.

The GASB has also issued Statement No. 84, *Fiduciary Activities*, which is effective for fiscal years beginning after December 15, 2018. Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments to determine whether an activity should be reported in a fiduciary fund in the financial statements. The University has not yet determined the effect that the adoption of GASB Statement No. 84 may have on its financial statements.

The GASB has also issued Statement No. 85, *Omnibus 2017*, which is effective for fiscal years beginning after June 15, 2017. Statement No. 85 addresses practice issues that have been identified during implementation of certain GASB statements. The University has not yet determined the effect that the adoption of GASB Statement No. 85 may have on its financial statements.

The GASB has also issued Statement No. 87, *Leases*, which is effective for fiscal years beginning after December 15, 2019. Statement No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. In other words, most leases currently classified as operating leases will be accounted for and reported in the same manner as capital leases. The University has not yet determined the effect that the adoption of GASB Statement No. 87 may have on its financial statements.

### 3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents as of June 30, 2017 and 2016 was as follows:

	<u>2017</u>		
	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State Treasurer	\$ 13,621,799	\$ -	\$ 13,621,799
Bank	<u>943,105</u>	<u>718</u>	<u>943,823</u>
	<u>\$ 14,564,904</u>	<u>\$ 718</u>	<u>\$ 14,565,622</u>
	<u>2016</u>		
	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State Treasurer	\$ 15,616,053	\$ -	\$ 15,616,053
Bank	<u>643,645</u>	<u>-</u>	<u>643,645</u>
	<u>\$ 16,259,698</u>	<u>\$ -</u>	<u>\$ 16,259,698</u>

Cash and cash equivalents with the State Treasurer included \$80,346 in 2017 and \$24,100 in 2016 of restricted cash for grants.

The combined carrying amount of cash in bank at June 30, 2017 and 2016 was \$943,823 and \$643,645 as compared with the combined bank balance of \$971,571 and \$707,993, 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, 2017 and 2016, the University was exposed to custodial credit risk of \$462,482 and \$152,505, respectively for amounts that are uninsured and uncollateralized.

Amounts with the State Treasurer as of June 30, 2017 and 2016, are comprised of three investment pools, the WV Money Market Pool, the WV Government Money Market Pool and the WV Short Term Bond Pool. There was \$727,027 in 2017 and \$776,729 in 2016 of unrestricted cash held for investment.

*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 University’s portion of the investment pools as of June 30:

<u>External Pool</u>	<u>2017</u>		<u>2016</u>	
	<u>Carrying Value (in Thousands)</u>	<u>S &amp; P Rating</u>	<u>Carrying Value (in Thousands)</u>	<u>S &amp; P Rating</u>
WV Money Market	\$ 12,604,639	AAAm	\$ 14,497,452	AAAm
WV Government Money Market	\$ -	AAAm	\$ -	AAAm
WV Short Term Bond	\$ 290,133	Not Rated	\$ 341,872	Not Rated

### 3. CASH AND CASH EQUIVALENTS (CONTINUED)

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	2017		2016	
	Carrying Amount (in thousands)	WAM (days)	Carrying Amount (in thousands)	WAM (days)
WV Money Market	\$ 12,604,639	52	\$ 14,497,452	52

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

External Pool	2017		2016	
	Carrying Value (in thousands)	Effective Duration (days)	Carrying Value (in thousands)	Effective Duration (days)
WV Short Term Bond	\$ 290,133	358	341,872	358

*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. No more than 5% of the money market fund’s total market value may be invested in the obligations of a single issuer, with the exception of the U.S. government and its agencies.

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. ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2017 and 2016, are as follows:

	2016	2016
Student tuition and fees — net of allowance for doubtful accounts of \$582,896 and \$474,019 in 2017 and 2016, respectively	\$ 520,820	\$ 495,329
Grants and contracts receivable	401,639	371,084
Other	<u>158,327</u>	<u>372,005</u>
	<u>\$ 1,080,786</u>	<u>\$ 1,238,418</u>

#### 5. CAPITAL ASSETS

Summary of capital assets transactions for the University as of June 30, 2017 and 2016, are as follows:

	2017			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 1,120,925	\$ -	\$ -	\$ 1,120,925
Construction in progress	<u>260,305</u>	<u>1,619,234</u>	<u>536,354</u>	<u>1,343,185</u>
Total capital assets not being depreciated	<u>1,381,230</u>	<u>1,619,234</u>	<u>536,354</u>	<u>2,464,110</u>
Capital assets being depreciated:				
Land improvements	4,215,388	297,102	-	4,512,490
Land improvements - leased	1,825,416	-	-	1,825,416
Infrastructure	14,667,151	1,425	-	14,668,576
Buildings	171,002,227	218,996	-	171,221,223
Equipment	14,239,179	1,056,586	142,733	15,153,032
Library books	<u>4,013,134</u>	<u>57,562</u>	<u>-</u>	<u>4,070,696</u>
Total capital assets being depreciated	<u>209,962,495</u>	<u>1,631,671</u>	<u>142,733</u>	<u>211,451,433</u>
Less accumulated depreciation for:				
Land improvements	1,516,327	315,760	-	1,832,087
Land improvements - leased	658,563	121,694	-	780,257
Infrastructure	6,809,968	687,872	-	7,497,840
Buildings	62,258,454	4,316,396	-	66,574,850
Equipment	9,860,689	1,190,696	137,823	10,913,562
Library books	<u>3,523,679</u>	<u>85,864</u>	<u>-</u>	<u>3,609,543</u>
Total accumulated depreciation	<u>84,627,680</u>	<u>6,718,282</u>	<u>137,823</u>	<u>91,208,139</u>
Capital assets being depreciated - net	<u>125,334,815</u>	<u>(5,086,611)</u>	<u>4,910</u>	<u>120,243,294</u>
Total Capital Assets	<u>\$ 126,716,045</u>	<u>\$ (3,467,377)</u>	<u>\$ 541,264</u>	<u>\$ 122,707,404</u>

**5. CAPITAL ASSETS (CONTINUED)**

	<b>2016</b>			<b>Ending Balance</b>
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	
Capital assets not being depreciated:				
Land	\$ 1,120,925	\$ -	\$ -	\$ 1,120,925
Construction in progress	<u>845,388</u>	<u>1,174,966</u>	<u>1,760,049</u>	<u>260,305</u>
Total capital assets not being depreciated	<u>1,966,313</u>	<u>1,174,966</u>	<u>1,760,049</u>	<u>1,381,230</u>
Capital assets being depreciated:				
Land improvements	4,116,383	99,005	-	4,215,388
Land improvements - leased	1,825,416	-	-	1,825,416
Infrastructure	14,559,185	107,966	-	14,667,151
Buildings	169,517,417	1,484,810	-	171,002,227
Equipment	13,413,035	1,018,461	192,317	14,239,179
Library books	<u>3,952,391</u>	<u>60,743</u>	<u>-</u>	<u>4,013,134</u>
Total capital assets being depreciated	<u>207,383,827</u>	<u>2,770,985</u>	<u>192,317</u>	<u>209,962,495</u>
Less accumulated depreciation for:				
Land improvements	1,219,279	297,048	-	1,516,327
Land improvements - leased	536,869	121,694	-	658,563
Infrastructure	6,128,468	681,500	-	6,809,968
Buildings	57,758,656	4,499,798	-	62,258,454
Equipment	8,823,001	1,229,460	191,772	9,860,689
Library books	<u>3,423,278</u>	<u>100,401</u>	<u>-</u>	<u>3,523,679</u>
Total accumulated depreciation	<u>77,889,551</u>	<u>6,929,901</u>	<u>191,772</u>	<u>84,627,680</u>
Capital assets being depreciated - net	<u>129,494,276</u>	<u>(4,158,916)</u>	<u>545</u>	<u>125,334,815</u>
Total Capital Assets	<u>\$ 131,460,589</u>	<u>\$ (2,983,950)</u>	<u>\$ 1,760,594</u>	<u>\$ 126,716,045</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, 2017, the University had no significant outstanding contractual commitments for property, plant, and equipment.

## 6. LONG-TERM LIABILITIES

Summary of long-term obligation transactions for the University for the years ended June 30, 2017 and 2016 are as follows:

	<b>2017</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Bonds, note and capital leases:					
Bonds payable	\$ 40,520,000	\$ 35,282,000	\$ 36,003,902	\$ 39,798,098	\$ 1,625,183
Bond premium/discount	485,925	85,480	535,223	36,182	-
Note payable	-	750,000	75,000	675,000	150,000
Capital lease obligations	609,535	-	142,462	467,073	144,850
Total bonds, note and capital leases	<u>41,615,460</u>	<u>36,117,480</u>	<u>36,756,587</u>	<u>40,976,353</u>	<u>1,920,033</u>
Other long-term liabilities:					
Advances from federal sponsors	509,471	-	10,610	498,861	-
Compensated absences	1,209,629	131,699	151,802	1,189,526	782,163
Other postemployment benefits liability	10,824,012	306,344	-	11,130,356	-
Total other long-term liabilities	<u>12,543,112</u>	<u>438,043</u>	<u>162,412</u>	<u>12,818,743</u>	<u>782,163</u>
Total long-term liabilities	<u>\$ 54,158,572</u>	<u>\$ 36,555,523</u>	<u>\$ 36,918,999</u>	<u>\$ 53,795,096</u>	<u>\$ 2,702,196</u>

	<b>2016</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Bonds and capital leases:					
Bonds payable	\$ 41,910,000	\$ -	\$ 1,390,000	\$ 40,520,000	\$ 1,455,000
Bond premium/discount	511,552	4,008	29,635	485,925	-
Capital lease obligations	749,649	-	140,114	609,535	142,462
Total bonds and capital leases	<u>43,171,201</u>	<u>4,008</u>	<u>1,559,749</u>	<u>41,615,460</u>	<u>1,597,462</u>
Other long-term liabilities:					
Advances from federal sponsors	511,662	-	2,191	509,471	-
Compensated absences	1,216,010	-	6,381	1,209,629	768,650
Other postemployment benefits liability	10,231,325	592,687	-	10,824,012	-
Total other long-term liabilities	<u>11,958,997</u>	<u>592,687</u>	<u>8,572</u>	<u>12,543,112</u>	<u>768,650</u>
Total long-term liabilities	<u>\$ 55,130,198</u>	<u>\$ 596,695</u>	<u>\$ 1,568,321</u>	<u>\$ 54,158,572</u>	<u>\$ 2,366,112</u>

## 7. LEASES AND NOTE PAYABLE

In September 2016, the University received an interest free loan from the West Virginia Higher Education Policy Commission in the amount of \$750,000 for the demolition of Sara Cree building. This loan is to be paid back in semi-annually payments of \$75,000 for the next 5 years.

Future annual payments on capital leases and note payable for years subsequent to June 30, 2017, are as follows:

Years Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	294,850	6,667	301,517
2019	297,277	4,240	301,517
2020	299,746	1,772	301,518
2021	175,200	52	175,252
2022	<u>75,000</u>	<u>-</u>	<u>75,000</u>
Total	<u>\$ 1,142,073</u>	<u>\$ 12,731</u>	<u>\$ 1,154,804</u>

The net book value of capital assets held under the capital lease as of June 30, 2017 and 2016, was \$1,045,158 and \$1,166,852, net of accumulated depreciation of \$780,258 and \$658,564, respectively.

## 8. BONDS PAYABLE

Bonds payable as of June 30, 2017 and 2016, consisted of the following:

	Interest Rate	Annual Principal Installment Due	<u>Principal Amount Outstanding</u>	
			2017	2016
Residence Facilities Revenue Bonds, due through 2035	5.00%	\$605,000–1,450,000	\$ -	\$ 18,435,000
Wellness Center Facilities Revenue Bonds, due through 2037	4.00%–5.0%	\$470,000–1,170,000	-	16,250,000
Refunding Revenue Bonds, due through 2033	3.0% - 4.375%	\$390,000–460,000	5,455,000	5,835,000
Refunding Revenue Bonds, due through 2037	3.65%	\$1,235,183–2,367,878	<u>34,343,098</u>	<u>-</u>
			39,798,098	40,520,000
Discount			-	(85,480)
Premium			<u>36,182</u>	<u>571,405</u>
			<u>\$ 39,834,280</u>	<u>\$ 41,005,925</u>

## 8. BONDS PAYABLE (CONTINUED)

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.

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

The Bonds maturing on and after June 1, 2017, 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, 2017 and 2016, 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, 2017 and 2016, gross revenues when combined with other

## 8. BONDS PAYABLE (CONTINUED)

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%.

On March 8, 2017, the University issued \$35.3 million in General Obligation Bonds with a fixed interest rate of 3.65% to advance refund \$35.3 million of outstanding 2005 and 2007 revenue bonds with an average interest rate of 4.5% and to pay the cost of issuance. As a result, both 2005 and 2007 revenue bonds are considered to be defeased and the liability for both of those bonds has been removed from the state of net position.

The advance refunding resulted in a net gain between the reacquisition price and the net carrying amount of old debt of \$82,013. The difference, reported in the accompanying financial statements as a deduction of bonds payable, is being charged to operations during 2017. The University completed the refunding to reduce its total debt service payments over the next 20 years by \$4.2 million and to obtain an economic gain (difference between the present value of the old and new debt service payments) of \$3.3 million.

Summary of the annual aggregate principal and interest payments for years subsequent to June 30, 2017, are as follows:

Years Ending June 30	2013		2017		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 390,000	\$ 185,963	\$ 1,235,183	\$ 1,343,394	1,625,183	1,529,357
2019	400,000	174,262	1,280,678	1,293,993	1,680,678	1,468,255
2020	410,000	165,862	1,324,732	1,245,898	1,734,732	1,411,760
2021	420,000	153,563	1,376,643	1,189,788	1,796,643	1,343,351
2022	435,000	140,962	1,427,349	1,134,729	1,862,349	1,275,691
2023-2027	1,645,000	516,831	7,962,328	4,776,972	9,607,328	5,293,803
2028-2032	1,430,000	257,332	9,540,324	3,063,457	10,970,324	3,320,789
2033-2037	<u>325,000</u>	<u>14,219</u>	<u>10,195,861</u>	<u>1,010,488</u>	<u>10,520,861</u>	<u>1,024,707</u>
Total	<u>\$ 5,455,000</u>	<u>\$ 1,608,994</u>	<u>\$ 34,343,098</u>	<u>\$ 15,058,719</u>	<u>\$ 39,798,098</u>	<u>\$ 16,667,713</u>

**9. OTHER POSTEMPLOYMENT BENEFITS**

OPEB costs are accrued based upon invoices received from PEIA based upon actuarially determined amounts. At June 30, 2017, 2016, and 2015 the noncurrent liability related to OPEB costs was \$11,130,356, \$10,824,012, and \$10,231,325, respectively. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was \$1,049,643 and \$743,299, respectively, during 2017. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was \$1,317,499 and \$724,812, respectively, during 2016. 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. As of and for the years ended June 30, 2017, 2016, and 2015, there were 37, 39, and 32 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.

**10. 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 for the years ending June 30, 2017 and 2016, are as follows:

	<b>2017</b>	<b>2016</b>
Other	<u>\$ 18,520</u>	<u>\$ 37,820</u>

## 11. UNRESTRICTED COMPONENTS OF NET POSITION

The University did not have any board designated unrestricted components of net position as of June 30, 2017 or 2016.

	2017	2016
Total unrestricted net position before OPEB and net pension liability	\$ 9,290,199	\$ 11,321,539
Less Net pension liability	(391,112)	(327,328)
Less OPEB liability	<u>(11,130,356)</u>	<u>(10,824,012)</u>
Total unrestricted component of net position	<u>\$ (2,231,269)</u>	<u>\$ 170,199</u>

## 12. 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, 2017 and 2016, 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, 2017, 2016, and 2015, were \$2,622,058, \$2,505,942, and \$2,533,604, respectively, which consisted of equal contributions from the University and covered employees in 2017, 2016, and 2015 of \$1,312,206, \$1,252,971, and \$1,266,802, respectively.

The total contributions that the University was required to contribute to the Great West for the years ended June 30, 2017, 2016, and 2015, were \$96,788, \$117,204, and \$136,838, respectively, which consisted of equal contributions from the University and the covered employee in 2017, 2016, and 2015 of \$48,394, \$58,602, and \$68,419, respectively.

## 12. DEFINED CONTRIBUTION PLANS (CONTINUED)

The University's total payroll for the years ended June 30, 2017 and 2016 was \$27,063,149 and \$26,177,277, respectively, and total covered employees' salaries in TIAA-CREF and Great West were, \$21,870,099 and \$806,569 in 2017, and \$20,882,851 and \$976,697 in 2016, respectively.

## 13. 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 years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Net Pension Liability	\$ 391,112	\$ 327,328
Deferred Outflows of Resources	\$ 87,680	\$ 53,708
Deferred Inflows of Resources	\$ 195,219	\$ 287,463
Revenues	\$ 69,507	\$ 52,512
Pension Expense	\$ (28,111)	\$ (27,374)
Contributions Made by Shepherd	\$ 34,322	\$ 35,215

### **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.

### 13. **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. The University's proportionate share attributable to this special funding subsidy was \$66,128 and \$49,119 as of June 30, 2016 and 2015, respectively.

The University's contributions to TRS for the years ended June 30, 2017, 2016, and 2015, were approximately \$34,322, \$35,215, and \$42,953, respectively.

#### ***Assumptions***

The total pension liabilities for financial reporting purposes were determined by actuarial valuations as of June 30, 2015 and rolled forward to June 30, 2016. 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.

**13. 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, 2016, are summarized below.

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
US Equity	7.0%	27.5%
International Equity	7.7%	27.5%
Core Fixed Income	2.7%	7.5%
High Yield Fixed Income	5.5%	7.5%
Real Estate	5.6%	10.0%
Private Equity	9.4%	10.0%
Hedge Funds	4.7%	10.0%

**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 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, 2016.

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

**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, 2017 and 2016 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 as of June 30, 2017	\$ 494,764	\$ 391,112	\$ 302,477
Net Pension Liability as of June 30, 2016	\$ 424,353	\$ 327,328	\$ 244,016

***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, 2016 and 2015. The total pension liability was determined by an actuarial valuation as of June 30, 2015 and rolled forward to the measurement date June 30, 2016.

The University's proportionate share of the TRS net pension liability as of June 30, 2017 and 2016 are as follows:

	<b>2017</b>	<b>2016</b>
Recognized University Net Pension Liability	\$ 391,112	\$ 327,328
University's proportionate share of net pension liability due to special funding situation	<u>744,964</u>	<u>692,199</u>
Total University Proportionate Share of TRS Net Pension Liability	<u>\$ 1,136,076</u>	<u>\$ 1,019,527</u>

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, 2016 and 2015. Employer contributions are recognized when due. At June 30, 2016 and 2015, the University's proportion was 0.009516% and 0.009446%, respectively.

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

The University recognized TRS pension expense for the years ended June 30, 2017 and 2016 as follows:

	<b>2017</b>	<b>2016</b>
University's porportionate share of TRS expense	\$ (94,239)	\$ (79,886)
Pension expense attributable to special funding from a non-employer contributing entity	<u>66,128</u>	<u>52,512</u>
Total TRS pension expense	<u>\$ (28,111)</u>	<u>\$ (27,374)</u>

The University also recognized revenue of \$69,507 and \$52,512 for support provided by the State for years ended June 30, 2017 and 2016, respectively.

At June 30, 2017, deferred outflows of resources and deferred inflows of resources related to the TRS pension are as follows:

	<b>2017</b>	<b>2016</b>
<b>Deferred Outflows of Resources</b>		
Changes in Proportion and difference between employer contributions and proportinate share of contributions	\$ 53,358	\$ 18,493
Contributions after the measurment date	<u>34,322</u>	<u>35,215</u>
<b>Total Deferred Outflows of Resources</b>	<u>\$ 87,680</u>	<u>\$ 53,708</u>
<b>Deferred Inflows of Resources</b>		
Changes in Proportion and difference between employer contributions and proportinate share of contributions	\$ 179,242	\$ 252,321
Net difference between projected and actual investment earnings	13,693	32,308
Differences between expected and actual experience	<u>2,284</u>	<u>2,834</u>
<b>Total Deferred Inflows of Resources</b>	<u>\$ 195,219</u>	<u>\$ 287,463</u>

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

The University will recognize the 2017 pension contributions of \$34,322 as a reduction of the TRS net pension liability in the year ended June 30, 2018. Other 2017 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, 2018	\$ (51,869)
June 30, 2019	(51,869)
June 30, 2020	(37,417)
June 30, 2021	(4,801)
June 30, 2022	4,095
	<u>\$ (141,861)</u>

***Payables to the pension plan***

The University did not report any amounts payable for normal contributions to the TRS as of June 30, 2017 and 2016.

**14. FOUNDATION**

The Foundation is a separate nonprofit organization incorporated in the State and has as its purpose “... to aid, strengthen, and further in every proper and useful way, the work and services of the University and its affiliated nonprofit organizations...” Oversight of the Foundation is the responsibility of its separate and independently elected Board of Directors, not otherwise affiliated with the University. In carrying out its responsibilities, the Board of Directors of the Foundation employs management, forms policy, and maintains fiscal accountability over funds administered by the Foundation. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, 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.

Based on the Foundation’s audited financial statements as of June 30, 2017 and 2016, the Foundation’s net assets (including unrealized gains) totaled \$28,421,069 and \$25,539,153, 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, 2017 and 2016, the Foundation contributed \$1,442,908 and \$1,226,523, respectively, to the University for scholarships and awards.

**15. AFFILIATED ORGANIZATION**

The University has separately incorporated an affiliated organization, the Alumni Association and Friends of Shepherd University. Oversight responsibility for this entity rests with an independent board and management not otherwise affiliated with the University, 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.

## 16. 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 \$239,577 and \$229,260 for the years ended June 30, 2017 and 2016, respectively. The rent expense is included in supplies and other services (Instruction) in the accompanying statements of revenues, expenses, and changes in net position. Starting July 2017, the University will be reducing the amount of square footage they will be leasing at the Martinsburg Center from 15,811 square feet to 7,346, thus causing future rent expense to be reduced.

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

	<b>Leases</b>
2018	\$ 109,716
2019	109,716
2020	109,716
2021	109,716
2022	109,716
2023	<u>109,716</u>
Total minimum lease payments	<u>\$ 658,296</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 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, 2017 or 2016.

## 16. COMMITMENTS AND CONTINGENCIES (CONTINUED)

### **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.

## 17. SUBSEQUENT EVENTS

**Potomac Place** - The University opened the doors to a new 300 bed residence hall at the start of the Fall 2017 semester. The new hall was funded with a public/private partnership with the Shepherd University Foundation Supporting Organization, a component unit of Shepherd University Foundation. The debt service for the construction cost will be repaid with rents from the students. The project was completed on-time and on-budget and was at nearly 100% occupancy as of the end of September.

## 18. SEGMENT INFORMATION

Condensed statements of net position as of June 30, 2017 and 2016:

	Residence Facilities Projects Revenue Bonds 2005		Wellness Center Revenue Bonds 2007		Refunding Revenue Bonds 2013		Refunding Revenue Bonds 2017	
	2017	2016	2017	2016	2017	2016	2017	2016
Assets:								
Current assets	-	9,299,008	-	1,127,070	3,151,934	2,164,653	10,382,390	-
Noncurrent assets	-	20,598,476	-	16,526,844	7,190,214	6,480,049	36,430,690	-
Total assets	-	29,897,484	-	17,653,914	10,342,148	8,644,702	46,813,080	-
Liabilities:								
Current liabilities	-	1,608,289	-	614,791	852,143	609,087	1,851,295	-
Noncurrent liabilities	-	18,362,284	-	15,694,520	5,101,182	5,494,120	33,107,916	-
Total liabilities	-	19,970,573	-	16,309,311	5,953,325	6,103,207	34,959,211	-
Net position:								
Net investment in capital assets	-	1,605,114	-	360,181	1,699,030	605,928	2,064,547	-
Restricted:								
Unrestricted	-	8,321,797	-	984,422	2,689,793	1,935,567	9,789,322	-
Total net position	-	9,926,911	-	1,344,603	4,388,823	2,541,495	11,853,869	-
Total net position and liabilities	-	29,897,484	-	17,653,914	10,342,148	8,644,702	46,813,080	-

Condensed statements of revenues, expenses, and changes in net position for the years ended June 30, 2017 and 2016:

	Residence Facilities Projects Revenue Bonds 2005		Wellness Center Revenue Bonds 2007		Refunding Revenue Bonds 2013		Refunding Revenue Bonds 2017	
	2017	2016	2017	2016	2017	2016	2017	2016
Operating:								
Operating revenues	\$ 10,339,039	\$ 15,081,892	\$ 1,893,495	\$ 2,489,314	\$ 2,580,379	\$ 2,785,113	\$ 4,077,511	\$ -
Operating expenses	(8,982,484)	(13,008,065)	(1,481,967)	(1,767,102)	(637,379)	(778,318)	(3,608,594)	-
Net operating income	1,356,555	2,073,827	411,528	722,212	1,943,000	2,006,795	468,917	-
Nonoperating:								
Nonoperating revenues	111,797	88,139	6,113	3,983	119,136	6,536	11,856,504	-
Nonoperating expenses	(11,395,263)	(959,508)	(1,762,244)	(768,418)	(214,808)	(232,491)	(471,552)	-
Net nonoperating loss	(11,283,466)	(871,369)	(1,756,131)	(764,435)	(95,672)	(225,955)	11,384,952	-
Increase (decrease) in net assets	(9,926,911)	1,202,458	(1,344,603)	(42,223)	1,847,328	1,780,840	11,853,869	-
Net position — beginning of year	9,926,911	8,724,453	1,344,603	1,386,826	2,541,495	760,655	-	-
Net position — end of year	\$ -	\$ 9,926,911	\$ -	\$ 1,344,603	\$ 4,388,823	\$ 2,541,495	\$ 11,853,869	\$ -

Condensed statements of cash flows for the years ended June 30, 2017 and 2016:

	Residence Facilities Projects Revenue Bonds 2005		Wellness Center Revenue Bonds 2007		Refunding Revenue Bonds 2013		Refunding Revenue Bonds 2013	
	2017	2016	2017	2016	2017	2016	2017	2016
Net cash provided by (used in) operating activities	\$ 1,437,378	\$ 3,073,192	\$ 870,108	\$ 1,202,713	\$ 2,337,895	\$ 2,403,161	\$ 769,162	\$ -
Net cash used in capital and related financing	(10,145,214)	(2,882,409)	(1,308,994)	(1,158,647)	(1,356,177)	(1,857,010)	8,900,772	-
Net cash provided by (used in) investing activities	-	-	-	-	-	-	-	-
Increase (decrease) in cash and cash equivalents	(8,707,836)	190,783	(438,886)	44,066	981,718	546,151	9,669,934	-
Cash and cash equivalents — beginning of year	8,707,836	8,517,053	438,886	394,820	1,899,477	1,353,326	-	-
Cash and cash equivalents — end of year	\$ -	\$ 8,707,836	\$ -	\$ 438,886	\$ 2,881,195	\$ 1,899,477	\$ 9,669,934	\$ -

## 19. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2017 and 2016, the following represents operating expenses within both natural and functional classifications:

2017	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Fees Assessed by the Commission	Total
Instruction	\$ 13,297,675	\$ 2,791,375	\$ 1,779,090	\$ 4,678	\$ -	\$ -	\$ -	\$ 17,872,818
Research	155,973	17,055	54,825	-	-	-	-	227,853
Public service	149,035	27,063	68,235	-	-	-	-	244,333
Academic support	1,981,476	393,871	850,643	495	-	-	-	3,226,485
Student services	2,212,557	526,498	747,064	1,240	-	-	-	3,487,359
General institutional support	3,224,702	1,218,830	2,224,556	203	-	-	-	6,668,291
Operations and maintenance of plant	1,539,158	423,118	868,363	2,021,325	-	-	-	4,851,964
Student financial aid	-	-	-	-	2,164,214	-	-	2,164,214
Auxiliary enterprises	4,502,573	1,067,031	5,657,888	1,484,014	-	-	-	12,711,506
Depreciation	-	-	-	-	-	6,718,282	-	6,718,282
Other	-	-	-	-	-	-	259,299	259,299
<b>Total</b>	<b>\$ 27,063,149</b>	<b>\$ 6,464,841</b>	<b>\$ 12,250,664</b>	<b>\$ 3,511,955</b>	<b>\$ 2,164,214</b>	<b>\$ 6,718,282</b>	<b>\$ 259,299</b>	<b>\$ 58,432,404</b>

2016	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Fees Assessed by the Commission	Total
Instruction	\$ 12,905,994	\$ 2,838,306	\$ 1,700,635	\$ 3,053	\$ -	\$ -	\$ -	\$ 17,447,988
Research	167,675	15,708	68,684	-	-	-	-	252,067
Public service	139,215	29,061	67,229	89	-	-	-	235,594
Academic support	1,950,869	442,935	899,090	1,245	-	-	-	3,294,139
Student services	2,142,532	530,786	845,817	1,031	-	-	-	3,520,166
General institutional support	2,821,864	912,701	2,659,368	442	-	-	-	6,394,375
Operations and maintenance of plant	1,585,385	460,190	1,466,405	1,961,571	-	-	-	5,473,551
Student financial aid	-	-	-	-	2,279,367	-	-	2,279,367
Auxiliary enterprises	4,463,743	1,072,894	5,917,547	1,444,866	-	-	-	12,899,050
Depreciation	-	-	-	-	-	6,929,902	-	6,929,902
Other	-	-	-	-	-	-	276,004	276,004
<b>Total</b>	<b>\$ 26,177,277</b>	<b>\$ 6,302,581</b>	<b>\$ 13,624,775</b>	<b>\$ 3,412,297</b>	<b>\$ 2,279,367</b>	<b>\$ 6,929,902</b>	<b>\$ 276,004</b>	<b>\$ 59,002,203</b>

## **20. COMPONENT UNIT'S DISCLOSURES**

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

### **SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

#### **Note 1 Summary of Significant Accounting Policies**

##### **Reporting Principles**

The consolidated financial statements include Shepherd University Foundation, Inc. and Shepherd University Foundation Supporting Organization (collectively referred to as the Foundation). Shepherd University Foundation, Inc. shares a common governing board with and has an ongoing economic interest in the Shepherd University Foundation Supporting Organization (Supporting Organization). As a result, these entities are financially interrelated and consolidation is required under accounting principles generally accepted in the United States. All significant intercompany balances and transactions have been eliminated.

##### **Organization and Nature of Operations**

The Shepherd University Foundation, Inc., and the Shepherd University Foundation Supporting Organization are nonprofit organizations incorporated in the state of West Virginia and headquartered in Shepherdstown, West Virginia. The primary purpose of the Shepherd University Foundation, Inc. is to provide assistance and support for the students, facilities and programs of Shepherd University. The primary purpose of the Shepherd University Foundation Supporting Organization is to provide financial support and other supporting services to the Shepherd University Foundation, Inc.

##### **Basis of Accounting**

The consolidated financial statements of the Shepherd University Foundation, Inc. and Supporting Organization 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.

## **Note 1 Summary of Significant Accounting Policies (Continued)**

### **Permanently Restricted Net Assets**

Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

Restrictions are to provide assistance and support for the students, facilities and programs of Shepherd University.

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

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

### **Investments**

The Foundation accounts for its investments in accordance with generally accepted accounting principles (GAAP). Under GAAP, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the consolidated 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 of \$300 or more and having a useful life greater than one year are capitalized. Assets no longer in use are retired. Maintenance and repairs are expensed as incurred. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets as follows:

	Years
Equipment	3-7
Building and improvements	40

## **Note 1 Summary of Significant Accounting Policies (Continued)**

### **Loan Origination Costs**

In June 2016, the Shepherd University Foundation Supporting Organization incurred loan origination costs of \$589,063 associated with obtaining financing. These costs are being amortized using the straight-line method over the life of the related debt, which is 19 months and 20 days.

During the year ended June 30, 2017, the Foundation adopted the provisions of Accounting Standards Update 2015-03, Interest – Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03) that was issued by the Financial Accounting Standards Board (FASB) in April 2015. Under this new accounting standard, the Foundation has retrospectively presented all loan origination costs as a direct deduction from loans payable. Amortization of the loan costs is included as a component of interest expense. The effects of the retrospective application of the accounting change on the year ended June 30, 2016 is to decrease total assets and loans payable by \$567,578 and reclassify \$21,485 of amortization to interest expense on the Consolidated Statement of Activities.

### **Advertising**

Advertising costs are expensed as incurred and amounted to \$3,890 and \$4,785 for the years ended June 30, 2017 and 2016, 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 consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services based upon management's judgment and past experience.

### **Use of Estimates in the Preparation of Consolidated Financial Statements**

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

## **Note 1 Summary of Significant Accounting Policies (Continued)**

### **Tax Exempt Status**

The Internal Revenue Service has determined that the Shepherd University Foundation, Inc. and Shepherd University Foundation Supporting Organization are organizations described in Section 501(c)(3) of the Internal Revenue Code and are therefore exempt from federal income tax.

The Foundation follows generally accepted accounting principles, which provides guidance on accounting for uncertainty in income taxes recognized in an organization's financial statements. The Foundation's policy is to charge penalties and interest to income tax expense as incurred. The Foundation's federal and state income tax returns are subject to examination by the Internal Revenue Service and state tax authorities, generally for a period of three years after the returns are filed.

### **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's investment portfolio 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 consolidated financial statements.

The Foundation places its demand deposits with local banks. At times such balances may be in excess of the Federal Deposit Insurance Corporation insurance limit. Management considers this to be a normal business risk.

### **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, 2017.

## Note 2 Pledges Receivable

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

Pledges receivable as of June 30, 2017 and 2016 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.

	<b>2017</b>	<b>2016</b>
Receivable in less than one year	\$ 616,020	\$ 437,683
Receivable in one to five years	3,129,560	2,307,500
Receivable over five years	<u>356,000</u>	<u>1,056,000</u>
Total Pledges Receivable	4,101,580	3,801,183
Less: discount to net present value	<u>(517,067)</u>	<u>(602,510)</u>
Net pledges receivable	<u>\$ 3,584,513</u>	<u>\$ 3,198,673</u>

## Note 3 Investments

The Foundation maintains investment securities with various brokerage companies. The Foundation also holds investments in real estate, certificates of deposit, and some common stock that are not invested with brokerage companies.

Investment securities at June 30, 2017 and 2016 are composed of the following:

<b>Description</b>	<b>Cost</b>	<b>Market</b>
<b><u>2017</u></b>		
Certificates of deposit	\$ 681,356	\$ 681,356
Government Securities	1,162,828	1,155,049
Corporate bonds and notes	1,080,102	1,079,045
Mutual funds	15,840,529	17,913,439
Stocks	<u>1,698,406</u>	<u>2,083,416</u>
Investment Securities	<u>\$ 20,463,221</u>	<u>\$ 22,912,305</u>
<b><u>2016</u></b>		
Certificates of deposit	\$ 778,988	\$ 778,988
Government Securities	2,181,513	2,290,350
Corporate bonds and notes	1,836,911	1,837,558
Mutual funds	14,249,625	14,832,667
Stocks	<u>1,584,218</u>	<u>1,667,357</u>
Investment Securities	<u>\$ 20,631,255</u>	<u>\$ 21,406,920</u>

### Note 3 Investments (Continued)

At June 30, 2017 and 2016, there was \$1,575,313 and \$1,379,005, 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 consolidated statement of financial position due to not having a readily available market value. Investment in real estate is comprised of the following:

<b>Description</b>	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
<b>2017</b>			
Land	\$ 40,000	\$ -	\$ 40,000
Building	<u>160,202</u>	<u>87,443</u>	<u>72,759</u>
	<u>\$ 200,202</u>	<u>\$ 87,443</u>	<u>\$ 112,759</u>
<b>2016</b>			
Land	\$ 40,000	\$ -	\$ 40,000
Building	<u>160,202</u>	<u>83,438</u>	<u>76,764</u>
	<u>\$ 200,202</u>	<u>\$ 83,438</u>	<u>\$ 116,764</u>

Depreciation expense related to investment in real estate amounted to \$4,005 for years ended June 30, 2017 and 2016.

The following is a summary of the Foundation's investments at June 30, 2017 and 2016:

<b>Description</b>	<b>2017</b>	<b>2016</b>
Investment securities	\$ 22,912,305	\$ 21,406,920
Real estate	<u>112,759</u>	<u>116,764</u>
	<u>\$ 23,025,064</u>	<u>\$ 21,523,684</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 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

#### **Note 4 Interest in Life Estate (Continued)**

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 determined 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, 2017 and 2016 were \$352,032 and \$335,035, respectively, and are reported at the calculated present value on the Foundation's consolidated 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 consolidated statement of activities.

#### **Note 5 Student Housing Facility Project and Construction in Progress**

During 2016, the Shepherd University Foundation Supporting Organization began the design and construction of a new student housing facility on the Shepherd University campus. The Supporting Organization received interim financing for the project in the form of bond anticipation notes issued by the West Virginia Economic Development Authority. The Supporting Organization has received a rural development loan commitment for a 40-year permanent loan from the United States Department of Agriculture that will retire the West Virginia bond anticipation notes at the completion of construction and upon obtaining an occupancy permit. The Supporting Organization will own the building and associated equipment and furnishings and has entered into a ground lease with Shepherd University. The ground lease began in June 2016 and will expire upon the repayment of all associated outstanding debt borrowed by the Supporting Organization. Upon the expiration of the lease, the building and associated equipment and furnishings will be transferred to Shepherd University. The ground lease agreement requires annual rental payments due 30 days after the receipt of the Supporting Organization's audited financial statements. Rental payments will equal the net available cash flow generated from the student housing facility project.

In June 2016, the Supporting Organization entered into a management agreement with Shepherd University. The management agreement appointed Shepherd University as the Supporting Organization's exclusive agent for the construction, operation, management and maintenance of the student housing facility project.

Construction in progress reported on the consolidated statements of financial position at June 30, 2017 and 2016 of \$18,927,071 and \$2,001,552, respectively, represent costs incurred related to the construction of the student housing facility project and capitalized interest associated with the financing of the project during the construction period. No depreciation will be recognized on these costs until the construction is complete and the building is placed into service. The building was placed into service in August 2017.

#### **Note 6 Equipment**

Equipment consists of the following:

	<u>2016</u>	<u>2015</u>
Office equipment (at cost)	\$ 18,970	\$ 28,115
Accumulated depreciation	<u>(12,838)</u>	<u>(22,606)</u>
Net book value	<u>\$ 6,132</u>	<u>\$ 5,509</u>

Depreciation expense related to equipment was \$3,079 and \$2,504 for the years ended June 30, 2017 and 2016, respectively.

## Note 7 Custodial Liabilities

Generally accepted accounting principles establish standards for transactions in which a foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both, to another entity that is specified by the donor. Specifically, if a not-for-profit organization establishes a fund at a foundation with its own funds and specifies itself or its affiliate as the beneficiary of that fund, the foundation must account for the transfer of such assets as a liability. The liability has been established at the fair market value of the funds, which is generally equivalent to the present value of future payments expected to be made to the not-for-profit organizations.

The gross receipts and disbursements for the custodial accounts, and the interest earned and gains on investments for the custodial accounts for the years ended June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Custodial receipts	\$ 200,870	\$ 195,815
Custodial payments	(615,343)	(641,630)
Interest and gains on investments	<u>3,074</u>	<u>8,159</u>
Net (decrease) in custodial liabilities	<u>\$ (411,399)</u>	<u>\$ (437,656)</u>

## Note 8 Gift Annuities

Gift annuities are recognized at fair value when received, and the corresponding 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.

The liability associated with gift annuities payable amounted to \$122,146 and \$134,983 for the years ended June 30, 2017 and 2016, respectively.

## Note 9 Loans Payable

As disclosed in Note 5, in June 2016 the Shepherd University Foundation Supporting Organization obtained interim financing for their student housing facility project through bond anticipation notes issued by the West Virginia Economic Development Authority. The Shepherd University Foundation Supporting Organization borrowed \$22,035,000 under Series 2016A bond anticipation notes with an interest rate of 1.20% and \$350,000 of Series 2016B taxable bond anticipation notes with an interest rate of 2.45%. The loans mature on February 1, 2018 and require semi-annual interest only payments on August 1 and February 1 of each loan year. On February 1, 2018, all outstanding interest and principal is required to be repaid. The loans are secured by a leasehold deed of trust on the student housing facility project. The carrying value of the collateral was \$18,927,071 and \$2,001,552 at June 30, 2017 and 2016, respectively. Total interest capitalized during the construction period of the student housing facility project amounted to \$273,301 and \$15,619 for the years ended June 30, 2017 and 2016, respectively.

## Note 9 Loans Payable (Continued)

The balance of loans payable, net of loan costs, at June 30, 2017 and 2016 is as follows:

	<b>2017</b>	<b>2016</b>
WVEDA Series 2016A Bond	\$ 22,035,000	\$ 22,035,000
WVEDA Series 2016B Taxable Bond	<u>350,000</u>	<u>350,000</u>
	22,385,000	22,385,000
Less loan costs, net of accumulated	<u>(208,211)</u>	<u>(567,578)</u>
	<u>\$ 22,176,789</u>	<u>\$ 21,817,422</u>

Amortization of loan costs charged to interest expense for the years ended June 30, 2017 and 2016 was \$359,367 and \$21,485, respectively.

The Shepherd University Foundation Supporting Organization has a loan commitment agreement for up to \$22,735,000 with the United States Department of Agriculture (USDA). At the completion of the student housing facility project construction and receipt of occupancy permit, the USDA will provide permanent financing for the project under a 40-year term loan and will pay off the outstanding balance of the West Virginia bond anticipation notes.

## Note 10 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, 2017 and 2016 was \$13,959 and \$10,002, respectively.

## Note 11 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 consolidated 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 12 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, 2017 and 2016, respectively.

As disclosed in Note 5, the Shepherd University Foundation Supporting Organization has entered into a ground lease agreement and management agreement with the University as part of the student housing facilities project.

### **Note 13 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 13 Fair Value Measurements (Continued)**

Fair value of assets measured on a recurring basis at June 30, 2017 and 2016 are as follows:

	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>2017</b>				
Pledges Receivable	\$ 3,584,513	\$ -	\$ -	\$ 3,584,513
Government Securities				
US Treasuries	732,198	732,198	-	-
Agency Securities	173,134	-	173,134	-
Municipal Bonds	66,673	-	66,673	-
Mortgage Pools	183,044	-	183,044	-
Corporate Bonds	1,079,045	-	1,079,045	-
Mutual Funds				
US Large Cap	3,027,044	3,027,044	-	-
US Small and Mid-Cap	2,462,992	2,462,992	-	-
International Equity	4,254,144	4,254,144	-	-
International Fixed Income	706,242	706,242	-	-
High-Yield Bond	332,067	332,067	-	-
REIT's	585,485	585,485	-	-
Commodities	1,050,260	1,050,260	-	-
Equity Energy	231,026	231,026	-	-
Hedged Equity	1,780,464	1,780,464	-	-
Master Limited Partnerships	880,465	880,465	-	-
Diversified Alternatives	1,909,353	987,079	-	922,274
Managed Futures	693,897	693,897	-	-
Stocks				
US Small and Mid-Cap	1,157,888	1,157,888	-	-
International Equity	925,528	925,528	-	-
	<u>\$ 25,815,462</u>	<u>\$ 19,806,779</u>	<u>\$ 1,501,896</u>	<u>\$ 4,506,787</u>

**Note 13 Fair Value Measurements (Continued)**

	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>2016</b>				
Pledges Receivable	\$ 3,198,673	\$ -	\$ -	\$ 3,198,673
Government Securities				
US Treasuries	1,442,955	1,442,955	-	-
Agency Securities	458,949	-	458,949	-
Municipal Bonds	104,862	-	104,862	-
Mortgage Pools	283,584	-	283,584	-
Corporate Bonds	1,837,558	-	1,837,558	-
Mutual Funds				
US Large Cap	2,627,463	2,627,463	-	-
US Small and Mid-Cap	2,192,162	2,192,162	-	-
International Equity	2,445,613	2,445,613	-	-
International Fixed Income	679,410	679,410	-	-
High-Yield Bond	304,883	304,883	-	-
REIT's	604,750	604,750	-	-
Commodities	374,857	374,857	-	-
Equity Energy	236,971	236,971	-	-
Hedged Equity	1,586,680	1,586,680	-	-
Master Limited Partnerships	882,155	882,155	-	-
Diversified Alternatives	2,091,381	864,152	-	1,227,229
Managed Futures	806,342	806,342	-	-
Stocks				
US Small and Mid-Cap	909,927	909,927	-	-
International Equity	757,430	757,430	-	-
	<u>\$ 23,826,605</u>	<u>\$ 16,715,750</u>	<u>\$ 2,684,953</u>	<u>\$ 4,425,902</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 measurement for investments is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data (Level 2). In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the hierarchy. The fair value measurement of the Foundation's Level 3 investments above have been determined based on the net asset values of the underlying fund investments.

**Note 13 Fair Value Measurements (Continued)**

Total realized (loss) for the investments noted above that is included in the change in net assets at June 30, 2017 and 2016 was (\$55,517) and (\$1,088,208) respectively. The unrealized gain (loss) for the investments noted above that is included in the change in net assets at June 30, 2017 and 2016 was \$1,764,167 and (\$242,128) respectively.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) consist of pledges receivable and funds invested in SkyBridge Multi-Advisor Series G (SkyBridge Fund) and Ironwood Institutional Multi-Strategy Fund, LLC (Ironwood Fund), which are speculative funds of funds. The changes in Level 3 assets are as follows for the years ended June 30, 2017 and 2016:

	<b>Fair Value Measurements Using Significant Unobservable Inputs (Level 3)</b>			
	<b>Pledges Receivable</b>	<b>SkyBridge Fund</b>	<b>Ironwood Fund</b>	<b>Total</b>
Fair Value as of July 1, 2016	\$ 3,198,673	\$ 367,139	\$ 860,090	\$ 4,425,902
New pledges	902,500	-	-	902,500
Payments received	(601,937)	-	-	(601,937)
Change in valuation	85,277	-	-	85,277
Purchase of funds	-	5,573	13,246	18,819
Sale of funds	-	(389,990)	-	(389,990)
Realized (loss)	-	(23,583)	-	(23,583)
Unrealized gain	-	40,861	48,938	89,799
Fair Value as of June 30, 2017	<u>\$ 3,584,513</u>	<u>\$ -</u>	<u>\$ 922,274</u>	<u>\$ 4,506,787</u>
Fair Value as of July 1, 2015	\$ 3,318,446	-	\$ 886,706	\$ 4,205,152
Pledges written off	(3,000)	-	-	(3,000)
Payments received	(297,526)	-	-	(297,526)
Change in valuation	180,753	-	-	180,753
Purchase of funds	-	408,000	22,774	430,774
Unrealized (loss)	-	(40,861)	(49,390)	(90,251)
Fair Value as of June 30, 2016	<u>\$ 3,198,673</u>	<u>\$ 367,139</u>	<u>\$ 860,090</u>	<u>\$ 4,425,902</u>

The amount of total gains (losses) included in the changes in net assets related to Level 3 assets for the years ending June 30, 2017 and 2016 was \$66,216 and \$(90,251), respectively.

## **Note 14 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 77% to 87% of the total fund, real estate in the range of 0% to 9%, commodities in the range of 3% to 13%, fixed income securities in the range of 12% to 22%, and cash in the range of 0% to 6%.

#### Note 14 Endowments (Continued)

Endowment net assets consisted of donor permanently restricted endowment funds of \$25,947,274 and \$25,232,749 as of June 30, 2017 and 2016, respectively. The investment income derived from the endowment funds is primarily restricted to providing scholarships for students.

The changes in endowment net assets for the years ended June 30, 2017 and 2016 were as follows:

Endowment Net Assets at June 30, 2015	\$	24,537,466
Investment income		25,748
Contributions		693,774
Transfers		<u>(24,239)</u>
Endowment Nets Assets at June 30, 2016	\$	25,232,749
Investment income		21,689
Contributions		688,224
Transfers		<u>4,612</u>
Endowment Nets Assets at June 30, 2017	\$	<u>25,947,274</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. The Foundation's accounting records do not contain the information necessary to determine the portion of the unrestricted net asset deficit that is attributable to endowment funds and the balance of deficiencies of this nature was not able to be determined as of June 30, 2017 and 2016.

#### Note 15 Unrestricted Net Asset Deficit

The Foundation records all realized and unrealized gains and losses to unrestricted net assets as they are incurred. The unrestricted net asset deficit of the Foundation is primarily the result of cumulative unrealized and realized losses not being allocated as a reduction to temporarily restricted net assets as well scholarship disbursements from funds in excess of the actual unrealized and realized investment earnings of prior years. In order to reduce the deficit and generate positive unrestricted net assets, the Foundation will need to generate gains on their investments for consecutive years, reduce the level of annual fund disbursements, or generate revenues from another outside source. The balance of the unrestricted net asset deficit was \$(6,230,161) and \$(6,772,981) for the years ended June 30, 2017 and 2016, respectively.

**Note 16 Subsequent Events**

The Foundation has evaluated events and transactions subsequent to June 30, 2017 through August 31, 2017, the date these financial statements were available to be issued. Based on the definitions and requirements of generally accepted accounting principles, management has not identified any events that have occurred subsequent to June 30, 2017 and through August 31, 2017, that require recognition or disclosure in the financial statements.

# 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%
June 30, 2015	0.00945%	\$ 327,328	\$ 692,199	\$ 1,019,527	\$ 375,501	87.17101%	66.25%
June 30, 2016	0.00952%	\$ 391,112	\$ 744,964	\$ 1,136,076	\$ 478,614	81.71763%	66.25%

#### Schedule of Employer Contributions

Measurement Date	Actuarially 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%
June 30, 2015	\$ 42,953	\$ 42,953	\$ (0)	\$ 375,501	11.43885%
June 30, 2016	\$ 36,894	\$ 36,894	\$ -	\$ 478,614	7.70851%

#### Notes to Required Supplementary Information

##### For the Year Ended June 30, 2017

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, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 13, 2017. 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

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

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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**

Baltimore, Maryland  
October 13, 2017