Shepherd University

Financial Statements as of and for the Years Ended June 30, 2018 and 2017, and Independent Auditors' Reports

SHEPHERD UNIVERSITY

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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 West Virginia Higher Education Fund, as of and for the years ended June 30, 2018 and 2017, 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.

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

To the Governing Board
Shepherd University

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, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note (2) to the financial statements, the University implemented the provisions of Governmental Accounting Standards Board (GASB) Statements No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* for the year ended June 30, 2018, which represents a change in accounting principle. As of July 1, 2017, the University's net position was restated to reflect the impact of adoption. A summary of the restatement is presented in Note (2). Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 – 12, the Schedule of Proportionate Share of Net Pension Liability and Contributions on page 76, and the Schedule of Proportionate Share on Net OPEB Liability and Contributions on page 77 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 12, 2018, 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

CliftonLarsonAllen LLP

Baltimore, Maryland
October 12, 2018

Shepherd University

Management Discussion and Analysis

Fiscal Years 2018 and 2017

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 Science in Data Analytics and Information Systems. 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 2018 data compared to the financial statements presented for fiscal year 2017. 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, 2018, and 2017. 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		
	2018	2017*	2016*
Assets:			
Cash	$ 11,019	$ 14,566	$ 16,260
Other Current Assets	2,242	1,603	1,938
Noncurrent Assets	117,896	123,315	127,425
Total Assets	131,157	139,484	145,623
Total Deferred Outflows of Resources	847	87	54
Total Assets and Deferred Outflow of Resources	132,004	139,571	145,677
Liabilities:			
Current Liabilities	8,110	7,950	7,718
Noncurrent Liabilities	47,168	51,484	52,120
Total Liabilities	55,278	59,434	59,838
Total Deferred Inflows of Resources	1,798	195	287
Total Liabilities and Deferred Inflows of Resource:	57,076	59,629	60,125
Net Position:			
Net Invesment in Capital Assets	78,308	81,731	85,100
Restricted - Expendable	513	442	281
Unrestricted	(3,893)	(2,231)	170
Total Net Position	$ 74,928	$ 79,942	$ 85,551

* Does not include the effects of GASB 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*"

Assets

Total Assets decreased approximately 5.4 percent to $132 million compared to $139.6 million for 2017 and compared to a decline of 4.18 percent, $6.1 million from 2016 to 2017. However, within current assets, cash decreased by $3.55 million from the previous year. This continued the trend from 2016 to 2017 of cash decline of $1.69 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 3 percent Tuition & Fee increase in 2018.

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 noncritical large capital projects in 2018 that would have offset accumulated depreciation. Non-current assets decreased by $5.4 million compared to 2017 continuing the trend from 2016 to 2017 which declined $4.11 million.

The net result of fiscal year 2018 activities resulted in a $7.6 million decrease in total assets.

Deferred Outflows of Resources:

Deferred outflows of resources represent the consumption of net position by the University that is applicable to future years. There was an increase of $759,616 in Deferred Outflows from FY 2017 to FY 2018, as a direct result of the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. In 2018, the University had combined deferred outflows of resources related to pensions and other postemployment benefits of $847,296, as required by both GASB 68 and GASB 75. This deferred outflow of resources directly relates to the required contributions the University has made on behalf of employees enrolled in the defined benefit pension plan (GASB 68) and contributions the University has made on behalf of employees eligible to receive other postemployment benefits (GASB 75).

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 decreased 7 percent, $4.16 million from 2017 to 2018 while they remained relatively flat, decreasing 0.67 percent, $404,000 from 2016 to 2017.

Significant changes include:

- An increase in Accounts payable of $73,942 from 2017 to 2018 related to, in part, the additional state procurement requirements which delayed the processing of payables.

- A decrease in Accrued Liabilities of $339,223 due primarily to a decrease in accrued payroll resulting from payroll vacancies during the fiscal year.

- A decrease in the OPEB liability of $2,123,536 is due to the implementation of GASB 75 and is based on the actuarial calculations provided 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 $1,627,387 and a decrease in Capital Lease Obligations of $144,850 resulting from principal payments. The decrease in the note payable of $150,000 is the result of semi-annual principal payments.

Deferred Inflows of Resources:

Deferred inflows of resources are the acquisitions of net position by the University that are applicable to future years. In 2018, the University had deferred inflows of resources related to pensions and other postemployment benefits of $1,798,343, as a direct result of the ongoing calculations provided by the state as they pertain to GASB Statement No. 68 and to GASB Statement No. 75.

Net Position

From 2017 to 2018 total net position decreased by $5.01 million. Unrestricted net position overall decreased significantly by $1.66 million as a result of GASB No. 68 and GASB No. 75 requirements to record the unfunded pension liabilities and the other post-employment benefit liabilities. In addition, the total net position decrease resulted from the continuing decline in operating results due to the enrollment declines and lack of sufficient funding from State appropriations. This continued the trend from 2016 to 2017 in which there was a decline in net position of $5.6 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 expended 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,		
	2018	2017*	2016*
Operating Revenues	$ 37,297	$ 39,192	$ 40,808
Operating Expenses	58,393	58,432	59,002
Operating Loss	(21,096)	(19,240)	(18,194)
Nonoperating Revenues - Net	15,104	13,630	13,920
Decrease in Net Position	(5,992)	(5,610)	(4,274)
Net Position - Beginning of Year	79,941	85,551	92,089
Cummulative effect of change in accounting principle	979	-	-
Net Position - Beginning of Year, restated	80,920	85,551	89,825
Net Position - End of Year	$ 74,928	$ 79,941	$ 85,551

* Does not include the effects of GASB 75, *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions."*

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 2018 decreased by $1.9 million or 4.8 percent compared to the 4 percent, $1.6 million decline from 2016 to 2017.

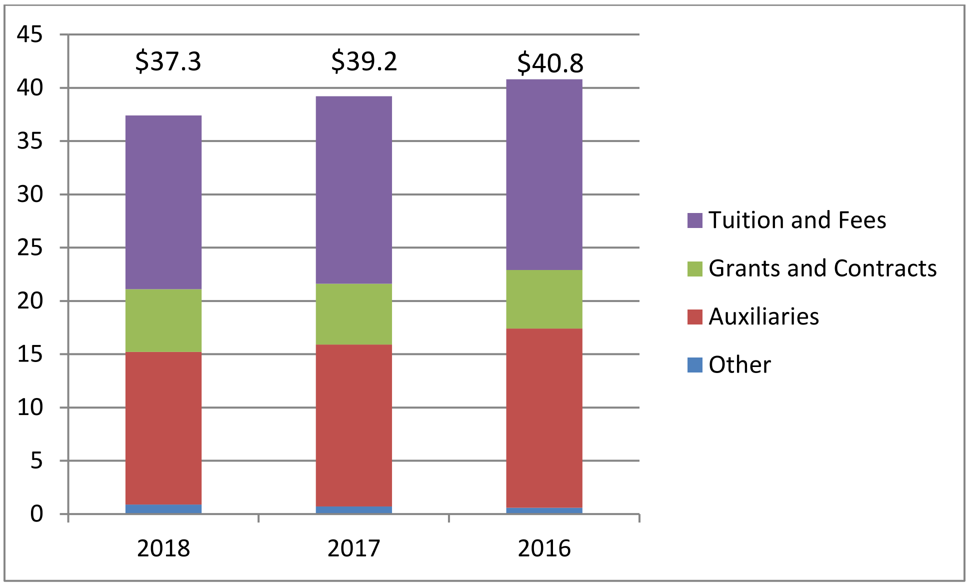
During fiscal year 2018, student tuition and fees revenue decreased from 2017 by $1.312 million or 7.5 percent due to a combination of a 3.0 percent tuition increase and a continuing enrollment shortfall. Overall, student tuition and fees as a percentage of total operating revenues decreased from 44.8 percent to 43.6 percent.

Grants and contracts comprise approximately 15.7 percent of the operating revenues and total $5.9 million in 2018. This is a $171,867 increase from 2017, which is a result of an increase in federal grants of $68,471, an increase in state grants of $69,145 and an increase in private grants of $34,251.

Auxiliary Enterprise Revenue, which includes resources generated by the operation of the bookstore, wellness center, dining services and residence halls, experienced a decrease of $950,824 or 6.3 percent in 2018. The decrease is partially attributed to the enrollment shortfall experience throughout the year. It is further impacted by the opening of Potomac Place which is owned by the Shepherd University Foundation Supporting Organization (SUFSO). This continues the declining trend from 2016 to 2017 of 9.6 percent, $1.6 million.

Operating Revenues – FY 2018-2016

(In millions)



Operating Expenses:

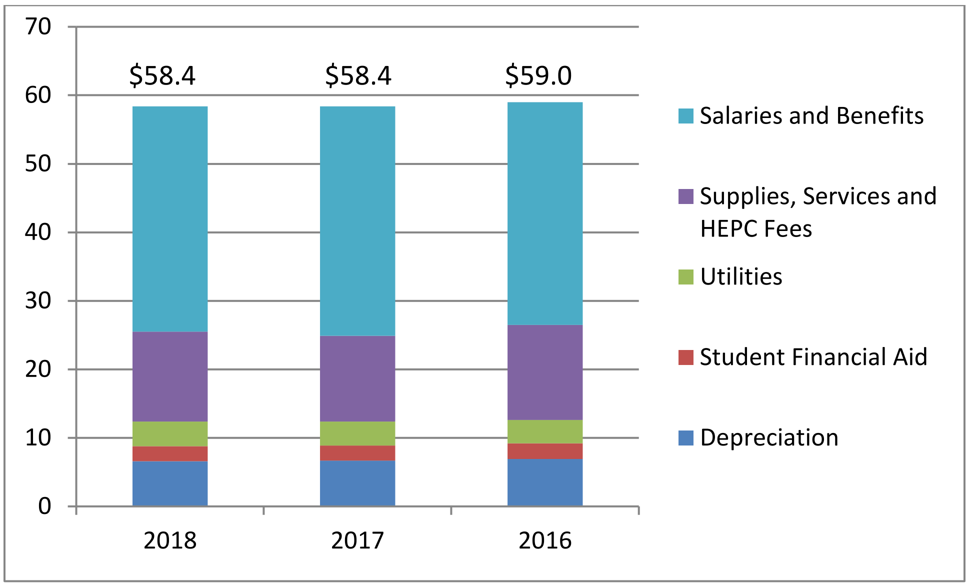
Overall, 2018 operating expenses decreased marginally when compared to 2017, by $39,373. The rate of decline increased when compared to the decrease of $570,000 from 2016 to 2017.

Salaries and benefits represent 56.3 percent of the total 2018 operating expenses, a 1.8% decrease over 2017. Employee compensation, including benefits, decreased by $624,680 compared to 2017. This was the result of vacancy salary savings partially offset by salary equity adjustments, faculty promotions and the inception of compliance with GASB 75 related to Other Post-Employment Benefits (OPEB). The reductions in salaries and benefits expense, ($624,680) decreases in Depreciation expense, ($89,626) and Fees assessed by the Commission, ($17,173) were offset by increases in Supplies and other services, ($577,870) and Student Financial Aid, ($72,641). There was a slight increase in Utilities, ($41,595) year-over-year due to a billing correction for water and sewer from the Corporation of Shepherdstown.

The University continued to implement University-wide cost containment strategies to offset fixed cost increases for 2018.

Operating Expenses – FY 2018-2016

(In millions)



Non-operating Revenues (Expenses)

Net Nonoperating Revenues slightly increased by $1.473 million, 10.8 percent in 2018.

Interest Expense decreased $764,260 due to the full-year effect of the 2017 refinancing of the 2005 and 2007 Bonds at a lower interest rate. Gifts increased $145,838 and PELL increased $323,157.

The net result of operating and non-operating revenues and expenses was a loss of approximately $5.99 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 $34.1 million and payments to suppliers of $12.3 million. Net cash used for operating activities increased by $2.3 million from 2017 to 2018 primarily due to the continuing decline in enrollment. This resulted in the reduction in Student Tuition & Fees of $703,869 and Auxiliary Enterprise charges of $928,987. Increases in salaries and benefits total $1.4 million. Payments to Suppliers decreased by $647,838, while payments to Utilities decreased $25,315. In addition, Contract & Grant revenues decreased by $13,950 from 2018 to 2017.

Capital financing activities represent funds that were used to purchase or add value to capital assets. Even though as in 2017, the University did not undertake any substantial capital projects for 2018, the 2005 and 2007 bonds were refinanced to take advantage of reduced interest rates. Capital asset purchases were kept to a minimum, with an $844,322 reduction over 2017. A five year no-interest loan from HEPC for $750,000 was secured to help with the Sara Cree building demolition in 2017.

Overall cash and cash equivalents at 2018 year–end decreased $3.5 million.

Condensed Consolidated Schedules of Cash Flows

(In thousands)

	Years Ended June 30,		
	2018	2017	2016
Net cash (used in) provided by:			
Operating activities	$ (14,685)	$ (12,413)	$ (11,049)
Noncapital financing activities	16,084	15,610	15,688
Capital and related financing activities	(5,129)	(5,008)	(6,319)
Investing activites	183	117	61
Increase (decrease) in Cash	(3,547)	(1,694)	(1,619)
Cash and cash equivalents - beginning of year	14,566	16,260	17,879
Cash and cash equivalents - end of year	$ 11,019	$ 14,566	$ 16,260

Economic Outlook

Shepherd’s financial strength and capabilities continue to be challenged by declining enrollment that is evidenced throughout the country. While the decline in enrollment continued in FY18, the rate of decline is slowing. This positive sign resulted from focused and strategic collaborative efforts to enhance enrollment through recruitment of both in-state and out-of-state students and to retain current students.

The dual-enrollment of high school students in local high schools and expanding recruitment efforts into neighboring out-of-state counties furthers the accomplishment of targeted growth. In addition, marked increases in the retention rates continue as a result of the Student Success program. This program assists students who face many challenges through the transitional period as they enter higher education. A second initiative to improve retention is the Retention Interventions Team (RIT) which provides every undergraduate with a dedicated staff advocate. Rigorous efforts are being made to maximize every opportunity to improve student success, which further increases the ability to retain existing students. Attracting more international students to Shepherd is also a strategy the University is employing to advance the long-term enrollment and revenue growth.

Shepherd University's state appropriation remained level in FY18 as compared to FY17. This was the first of several years where there was no reduction in the appropriation. The ongoing insufficient state investment remains a primary driver for determining the University's FY19 operating budget. Although, Shepherd's reliance upon state investment is among the lowest in the state, ongoing insufficient financial support by the state in higher education continues to cause the University to examine existing resources, implement cost containment measures and seek enhancement of new revenue opportunities.

The first of these new revenue opportunities includes the completion and opening of Shepherd University's new, 5-story, 81,000 square foot residence hall on West Campus in fall, 2017. This new housing is named Potomac Place and provides 298 beds and numerous amenities, including the Riverside Café. The residence hall is owned by the Shepherd University Foundation Supporting Organization (SUFSO). Shepherd University provides management of the residence hall and will be paid a ground lease payment at the culmination of each fiscal year.

The University Bookstore entered into a contract with Follett to assume ownership and operations of the bookstore. This transition occurred in April, 2018 and will provide a broader scope of products for fulfillment of academic books and supplies with competitive pricing. University staff and management of the Bookstore will be offered employment by Follett. Commissions paid to the University by Follett will be utilized to fund student scholarships.

At the end of FY18, the University selected Chartwell's to assume the ownership and operations of University dining services. Transition will occur during summer, 2018 and will provide additional dining options for students at various locations across campus. In addition, the former staff and management employed by the University will be offered employment by Chartwell's. Students will not experience changes in the meal plans and rates for the coming year. Billing students for their meal plan charges will continue to be included in the total charges billed each semester by the University. The University will remit these funds to Chartwell's, who will remit commission revenue to the University throughout the year.

The Shepherd University Advancement Office in partnership with the Shepherd University Foundation continues to increase 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.

Management recommendations for setting tuition rates will continue to be focused and strategic to balance student affordability with the need for increased revenue. In consideration of the continuing enrollment decline, the focus in the upcoming years will be to control costs to students, while attracting additional residential and out-of-state students.

The University staff and Board of Governors continues these efforts and will 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
Pamela W. Stevens
Vice President for Finance / Chief Financial Officer

SHEPHERD UNIVERSITY

STATEMENTS OF NET POSITION
AS OF JUNE 30, 2018 AND 2017

ASSETS AND DEFERRED OUTFLOWS	2018	2017
CURRENT ASSETS:		
Cash and cash equivalents	$ 11,018,880	$ 14,565,622
Accounts receivable — net	2,109,376	1,080,786
Due from Commission	16,097	13,037
Loans to students — current portion	100,091	100,091
Inventories	16,299	409,110
Total current assets	13,260,743	16,168,646
NONCURRENT ASSETS:		
Other Receivable	217,675	254,640
Loans to students — net of allowance of $480,407 and $462,518 in 2018 and 2017, respectively	317,245	353,088
Capital assets — net	117,361,847	122,707,404
Total noncurrent assets	117,896,767	123,315,132
TOTAL ASSETS	131,157,510	139,483,778
TOTAL DEFERRED OUTFLOW OF RESOURCES:		
Deferred outflows related to pensions and OPEB	847,296	87,680
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	$ 132,004,806	$ 139,571,458

(Continued)

Accounts payable	$ 1,262,922	$ 1,188,980
Accrued liabilities	2,757,270	3,096,493
Compensated absences — current portion	737,330	782,163
Unearned revenues	1,195,825	815,126
Deposits held in custody for others	178,687	147,722
Bonds payable — current portion	1,680,678	1,625,183
Note payable and capital lease obligations — current portion	297,277	294,850
Total current liabilities	8,109,989	7,950,517
NONCURRENT LIABILITIES:		
Advances from federal sponsors	403,418	498,861
Compensated absences	415,010	407,363
Other postemployment benefits liability	9,006,820	11,130,356
Net pension liability	266,966	391,112
Bonds payable, net of current portion	36,526,215	38,209,097
Note payable and capital lease obligations, net of current portion	549,946	847,223
Total noncurrent liabilities	47,168,375	51,484,012
Total liabilities	55,278,364	59,434,529
DEFERRED INFLOW OF RESOURCES:		
Deferred inflows related to pensions and OPEB	1,798,343	195,219
NET POSITION:		
Net Investment in capital assets	78,307,730	81,731,051
Restricted — expendable:		
Loans	82,432	94,361
Other restricted	430,751	347,568
Total restricted - expendable	513,183	441,929
Unrestricted	(3,892,814)	(2,231,269)
Total net position	74,928,099	79,941,711
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION	$ 132,004,806	$ 139,571,459

See notes to financial statements. (Concluded)

SHEPHERD UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
OPERATING REVENUES:		
Student tuition and fees — net of scholarship allowance of $11,618,993 and $10,990,322 in 2018 and 2017, respectively	$ 16,262,776	$ 17,574,478
Contracts and grants:		
Federal	1,807,529	1,739,058
State	3,987,880	3,918,735
Private	60,945	26,694
Interest on student loans receivable	15,364	18,951
Sales and services of educational activities	49,530	50,491
Auxiliary enterprise revenue — net of scholarship allowance of $1,193,611 and $869,902 in 2018 and 2017, respectively	14,259,962	15,210,786
Other operating revenues	852,637	653,420
Total operating revenues	37,296,623	39,192,613
OPERATING EXPENSES:		
Salaries and wages	26,695,420	27,063,149
Benefits	6,207,890	6,464,841
Supplies and other services	12,828,534	12,250,664
Utilities	3,553,550	3,511,955
Student financial aid — scholarships and fellowships	2,236,855	2,164,214
Depreciation	6,628,656	6,718,282
Fees assessed by the Commission for operations	242,126	259,299
Total operating expenses	58,393,031	58,432,404
OPERATING LOSS	(21,096,408)	(19,239,791)

(Continued)

SHEPHERD UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
NONOPERATING REVENUES (EXPENSES):		
State appropriations	$ 9,360,954	$ 9,360,954
Payments on behalf of the University	628,045	69,507
Federal Pell grants	5,109,498	4,786,341
Investment income	183,348	116,798
Interest expense	(1,427,510)	(2,191,770)
Fees assessed by the Commission for debt service	(18,303)	(18,520)
Gifts	1,657,644	1,511,806
Gain (loss) on disposal of equipment	(389,986)	(4,910)
Net nonoperating revenues	15,103,690	13,630,206
DECREASE IN NET POSITION	(5,992,718)	(5,609,585)
NET POSITION — Beginning of year	79,941,711	85,551,296
Cummulative effect of change in accounting principle	979,106	-
NET POSITION - Beginning of year, as restate	80,920,817	85,551,296
NET POSITION — End of year	$ 74,928,099	$ 79,941,711

See notes to financial statements. (Concluded)

SHEPHERD UNIVERSITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	$ 16,736,040	$ 17,439,909
Contracts and grants	5,747,629	5,761,579
Payments to and on behalf of employees	(34,127,228)	(32,704,325)
Payments to suppliers	(12,310,591)	(12,958,429)
Payments to utilities	(3,495,990)	(3,521,305)
Payments for scholarships and fellowships	(2,236,855)	(2,163,011)
Loans issued to students	(56,600)	(52,000)
Collection of loans to students	107,807	119,760
Sales and service of educational activities	49,530	50,492
Auxiliary enterprise charges	14,290,927	15,219,914
Fees assessed by the Commission	(242,126)	(259,299)
Other receipts — net	852,638	653,420
Net cash used in operating activities	(14,684,819)	(12,413,295)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	9,360,954	9,360,954
Federal Pell grants	5,109,498	4,786,341
Gifts	1,657,644	1,511,806
Federal student loan program — direct lending receipts	17,233,702	18,146,795
Federal student loan program — direct lending payments	(17,277,527)	(18,195,803)
Net cash provided by noncapital financing activities	16,084,271	15,610,093
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Capital note and bond proceeds from the State	-	750,000
Interest paid on capital debt and leases	(1,427,510)	(2,191,770)
Purchases of capital assets	(1,763,696)	(2,608,018)
Bond and lease proceeds	-	35,282,000
Principal paid on capital debt and leases	(1,920,033)	(36,221,364)
Withdrawals from (deposits to) noncurrent cash and cash equivalents	-	-
Fees assessed by the Commission	(18,303)	(18,520)
Net cash used in capital financing activities	(5,129,542)	(5,007,672)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on investments	183,348	116,798
Net cash provided by investing activities	183,348	116,798
DECREASE IN CASH AND CASH EQUIVALENTS	(3,546,742)	(1,694,076)
CASH AND CASH EQUIVALENTS — Beginning of year	14,565,622	16,259,698
CASH AND CASH EQUIVALENTS — End of year	$ 11,018,880	$ 14,565,622

(Continued)

SHEPHERD UNIVERSITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (21,096,408)	$ (19,239,791)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	6,628,656	6,718,282
Net accretion of premiums/discounts on bonds payable	(2,204)	(449,743)
Effect of changes in operating Assets and Liabilities:		
Accounts receivables — net	(984,765)	206,640
Other receivable	36,965	52,218
Loans to students — net	35,843	48,809
Due from the Commission	(3,060)	29,904
Inventories	392,811	147,909
Accounts payable	164,553	(425,868)
Accrued liabilities	(339,224)	260,484
Compensated absences	(37,185)	(20,104)
Other postemployment benefits liability	1,021,560	306,344
Net pension liability	(818,583)	7,075
Deferred revenue	380,699	(53,973)
Deposits held in custody for others	30,965	9,128
Advances from federal sponsors	(95,442)	(10,609)
NET CASH USED IN OPERATING ACTIVITIES	$ (14,684,819)	$ (12,413,295)
NONCASH TRANSACTIONS		
Property additions in accounts payable	$ 90,611	$ 106,535

See notes to financial statements.

(Concluded)

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Cash and cash equivalents	$ 2,015,700	$ 797,439
Cash and cash equivalents - restricted	2,593,872	7,835,114
Pledges receivable (net of present value adjustment)	3,112,047	3,584,513
Other receivables	35,267	837
Due from Shepherd University	9,273	-
Accrued interest receivable	29,637	21,019
Prepaid expenses	13,019	1,582
Investments	23,558,785	23,025,064
Interest in life estate	369,589	352,032
Construction in Progress	-	18,927,071
Equipment, net	20,461,999	5,055
Total Assets	$ 52,199,188	$ 54,549,726
LIABILITIES		
Accounts payable	$ 16,615	$ 1,747,003
Due to Shepherd University	1,007,017	-
Retainage payable	-	805,935
Accrued interest	18,860	113,748
Custodial liabilities	846,841	1,163,036
Gift annuities payable	108,325	122,146
Loans payable	21,740,990	22,176,789
Total Liabilities	$ 23,738,648	$ 26,128,657
NET ASSETS		
Unrestricted	$ (1,283,767)	$ (6,230,161)
Temporarily restricted	9,025,454	8,703,956
Permanently restricted	20,718,853	25,947,274
Total Net Assets	$ 28,460,540	$ 28,421,069
Total Liabilities and Net Assets	$ 52,199,188	$ 54,549,726

See notes to financial statements.

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CHANGES IN UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Dormitory rental income, net of waivers	$ 1,838,363	$ -
Other revenue	22,886	26,720
Interest and dividents	147,859	47,161
Net realized and unrealized gains on investments	601,480	1,594,140
Transfers	5,792,817	(110,400)
Net assets released from restrictions	2,307,738	1,864,385
Total Revenue and Other Support	10,711,143	3,422,006
EXPENSES		
Program services:		
Scholarships and awards	2,287,605	1,757,190
College support	90,091	107,195
Salaries	70,092	-
Payroll taxes and benefits	11,604	-
Student activities	1,478	-
Equipment and supplies	8,812	-
Depreciation	645,900	-
Insurance	50,753	4,964
Contractual services	52,808	-
Telephone	2,781	-
Miscellaneous	217	-
Repairs and maintenance	35,291	-
Utilities	188,305	-
Ground rental	965,782	-
Interest	623,653	359,367
General and administrative:		
Salaries	351,043	344,110
Investment management fees	155,366	104,369
Printing and reproduction costs	31,314	28,694
Payroll taxes and benefits	60,275	57,551
Depreciation	6,164	7,084
Bank fees and administrative expense	9,735	1,972
Rent	12,600	12,600
Office supplies and postage	12,282	7,954
Insurance	5,860	6,283
Changes in gift annuities	8,038	9,024
Professional fees	36,704	32,578
Staff training	-	150
Program development	33,597	30,744
Telephone	1,984	2,241
Technology	821	3,635
Bad debt expense	1,000	-
Miscellaneous	2,794	1,481
Total Expenses	5,764,749	2,879,186
Change In Unrestricted Net Assets	4,946,394	542,820

(Continued)

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Cash contributions	$ 1,617,883	$ 2,194,774
Stock contributions	64,763	464,310
Other non-cash contributions	166,431	75,813
Other revenue	30,906	27,553
Interest and dividends	423,737	506,208
Net realized and unrealized gains on investments	203,235	114,510
Transfers	122,281	105,788
Net assets released from restrictions	(2,307,738)	(1,864,385)
Change inTemporarily Restricted Net Assets	321,498	1,624,571
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Cash contributions	594,563	573,276
Stock contributions	48,237	97,951
Other non-cash contributions	17,557	16,997
Interest and dividends	26,320	21,689
Transfers	(5,915,098)	4,612
Change in Permanently Restricted Net Assets	(5,228,421)	714,525
Decrease in Net Assets	39,471	2,881,916
NET ASSETS - Beginning of year	28,421,069	25,539,153
NET ASSETS - End of year	$ 28,460,540	$ 28,421,069

(Concluded)

See notes to financial statements.

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, 2018 and 2017, 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 20).

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

Net Investment in Capital Assets — This represents the University's total investment in capital assets, net of depreciation and outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included.

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

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

Restricted — Nonexpendable — This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The University does not have any restricted nonexpendable component of net position at June 30, 2018 or 2017.

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 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://wvbti.com.

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

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

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

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.

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, 2018 and 2017, the University had deferred outflows of resources related to pensions and OPEB of $847,296 and $87,680, respectively (see Notes 9 and 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, 2018 and 2017, the University had deferred inflows of resources related to pensions and OPEB of $1,798,343 and $195,219, respectively (see Notes 9 and 13).

Compensated Absences — 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Certain faculty employees (generally those with less than a 12-month contract) earn a similar extended health or life insurance coverage retirement benefit based on years of service. Generally 3 1/3 years of teaching service extend health insurance for one year of single coverage and five years extend health insurance for one year of family coverage. The same hire date mentioned above also applies to coverage for faculty employees. Faculty hired after July 1, 2009, will no longer receive years of service credit toward insurance premiums when they retire. Employees hired after July 1, 2010 receive no health insurance premium subsidy from the University. Two groups of employees hired after July 1, 2010 will not be required to pay the unsubsidized rate: 1) active employees who were originally hired before July 1, 2010, who have a break in service of fewer than two years after July 1, 2010; and 2) retired employees who retired before July 1, 2010, return to active service after July 1, 2010, and then go back into retirement. In those cases, the original hire date will apply.

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

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

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

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

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

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

Nonoperating Revenues — Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenues that are defined as 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 nonsubsidized loans directly to students, through entities like the University. Direct student loan receivables are not included in the University's statements of net position, as the loans are repayable directly to the U.S. Department of Education. In 2018 and 2017, the University received and disbursed approximately $17 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 2018 and 2017, the University received and disbursed $5,317,169 and $4,966,732, 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.

The University has implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This Statement will require the University to reports its share of the net OPEB liability and expense, as allocated to it by the West Virginia Retiree Health Benefit Trust Fund (RHBT). The balance of the net OPEB liability and related deferred outflows of resources and deferred inflows of resources at July 1, 2016 is reported on the Statement of Revenues, Expenses, and Changes in Net Position as a restatement to the 2017 Net Position – beginning of year. The RHBT was not able to provide sufficient information to restate the financial statements for the period ending June 30, 2017.

	2018
Net Position - beginning of year, as previously reported	$ 79,941,711
Balance of the net OPEB liability and related deferred outflows of resources and deferred inflows of resources	979,106
Net Position- beginning of year, as restated	$ 80,920,817

Newly Adopted Statements Issued by the Governmental Accounting Standards Board —The GASB has also issued Statement No. 81, *Irrevocable Split-Interest Agreements,* which was 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 was 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.

The GASB has also issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which was 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 adoption of this standard had an effect on the University's financial statements, please see footnote 9 for more detail regarding the effect.

The GASB has also issued Statement No. 85, *Omnibus 2017*, which was 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 adoption of this statement had no effect on the University's financial statements.

Recent Statements Issued by the Governmental Accounting Standards Board ─ 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. 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.

The GASB has also issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, which is effective for fiscal years beginning after June 15, 2018. Statement No. 88 establishes clarity for which liabilities governments should include when disclosing information related to debt. The University has not yet determined the effect that the adoption of GASB Statement No. 88 may have on its financial statements.

The GASB has also issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of Construction Period*, which is effective for fiscal years beginning after December 15, 2019.

Statement No. 89 establishes accounting requirements where interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for

financial statements prepared using economic resources measurement focus. As a result, interest cost incurred before the end of the construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The University has not yet determined the effect that the adoption of GASB Statement No. 89 may have on its financial statements.

The GASB has also issued Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*, which is effective for fiscal years beginning after December 15, 2018. Statement No. 90 establishes consistency and comparability of reporting a government's majority interest in a legally separate organization to improve the relevance of the financial statement information for certain component units. The University has not yet determined the effect that the adoption of GASB Statement No. 90 may have on its financial statements.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents as of June 30, 2018 and 2017 was as follows:

	2018		
	Current	**Noncurrent**	**Total**
State Treasurer	$ 10,220,761	$ -	$ 10,220,761
Bank	792,838	5,281	798,119
	$ 11,013,599	$ 5,281	$ 11,018,880

	2017		
	Current	**Noncurrent**	**Total**
State Treasurer	$ 13,621,799	$ -	$ 13,621,799
Bank	943,105	718	943,823
	$ 14,564,904	$ 718	$ 14,565,622

Cash and cash equivalents with the State Treasurer included $114,222 in 2018 and $80,346 in 2017 of restricted cash for grants.

The combined carrying amount of cash in bank at June 30, 2018 and 2017 was $798,118 and $943,823 as compared with the combined bank balance of $832,716 and $971,571, 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, 2018 and 2017, the

University was exposed to custodial credit risk of $369,363 and $462,482, respectively for amounts that are uninsured and uncollateralized.

3. CASH AND CASH EQUIVALENTS (CONTINUED)

Amounts with the State Treasurer as of June 30, 2018 and 2017, 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 $936,054 in 2018 and $727,027 in 2017 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:

	2018		2017	
External Pool	Carrying Value (in Thousands)	S & P Rating	Carrying Value (in Thousands)	S & P Rating
WV Money Market	$ 9,074,185	AAAm	$ 12,604,639	AAAm
WV Short Term Bond	$ 210,522	Not Rated	$ 290,133	Not Rated

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

Interest Rate Risk — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. All the amounts with the State Treasurer are subject to interest rate risk. The following table provides information on the weighted average maturities for the WV Money Market Pool and the WV Government Money Market Pool:

	2018		2017	
External Pool	Carrying Amount (in thousands)	WAM (days)	Carrying Amount (in thousands)	WAM (days)
WV Money Market	$ 9,074,185	52	$ 12,604,639	52

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

	2018		2017	
External Pool	Carrying Value (in thousands)	Effective Duration (days)	Carrying Value (in thousands)	Effective Duration (days)
WV Short Term Bond	$ 210,522	358	290,133	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, 2018 and 2017, are as follows:

	2018	2017
Student tuition and fees — net of allowance for doubtful accounts of $710,520 and $582,896 in 2018 and 2017, respectively	$ 389,602	$ 520,820
Grants and contracts receivable	484,236	401,639
Potomac Place Ground Rent and Management operations	1,007,017	-
Other	228,521	158,327
	$ 2,109,376	$ 1,080,786

5. CAPITAL ASSETS

Summary of capital assets transactions for the University as of June 30, 2018 and 2017, are as follows:

	2018			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 1,120,925	$ -	$ -	$ 1,120,925
Construction in progress	1,343,185	657,765	1,410,457	590,493
Total capital assets not being depreciated	2,464,110	657,765	1,410,457	1,711,418
Capital assets being depreciated:				
Land improvements	4,512,490	1,225,950	-	5,738,440
Land improvements - leased	1,825,416	-	-	1,825,416
Infrastructure	14,668,576	97,389	-	14,765,965
Buildings	171,221,223	87,119	1,596,485	169,711,857
Equipment	15,153,032	936,735	368,553	15,721,214
Library books	4,070,696	83,186	-	4,153,882
Total capital assets being depreciated	211,451,433	2,430,379	1,965,038	211,916,774
Less accumulated depreciation for:				
Land improvements	1,832,087	381,777	-	2,213,864
Land improvements - leased	780,257	121,694	-	901,951
Infrastructure	7,497,840	705,569	-	8,203,409
Buildings	66,574,850	4,209,295	1,217,746	69,566,399
Equipment	10,913,562	1,133,690	352,704	11,694,548
Library books	3,609,543	76,631	-	3,686,174
Total accumulated depreciation	91,208,139	6,628,656	1,570,450	96,266,345
Capital assets being depreciated - net	120,243,294	(4,198,277)	394,588	115,650,429
Total Capital Assets	$ 122,707,404	$ (3,540,512)	$ 1,805,045	$ 117,361,847

5. **CAPITAL ASSETS** (CONTINUED)

	2017			
	Beginning Balance	**Additions**	**Reductions**	**Ending Balance**
Capital assets not being depreciated:				
Land	$ 1,120,925	$ -	$ -	$ 1,120,925
Construction in progress	260,305	1,619,234	536,354	1,343,185
Total capital assets not being depreciated	1,381,230	1,619,234	536,354	2,464,110
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	4,013,134	57,562	-	4,070,696
Total capital assets being depreciated	209,962,495	1,631,671	142,733	211,451,433
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	3,523,679	85,864	-	3,609,543
Total accumulated depreciation	84,627,680	6,718,282	137,823	91,208,139
Capital assets being depreciated - net	125,334,815	(5,086,611)	4,910	120,243,294
Total Capital Assets	$ 126,716,045	$ (3,467,377)	$ 541,264	$ 122,707,404

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, 2018, 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, 2018 and 2017 are as follows:

	2018				
	Beginning Balance	**Additions**	**Reductions**	**Ending Balance**	**Current Portion**
Bonds, note and capital leases:					
Bonds payable	$ 39,798,098	$ -	$ 1,625,183	$ 38,172,915	$ 1,680,678
Bond premium/discount	36,182	-	2,404	33,778	-
Note payable	675,000	-	150,000	525,000	150,000
Capital lease obligations	467,073	-	144,850	322,223	147,277
Total bonds, note and capital leases	40,976,353	-	1,922,437	39,053,916	1,977,955
Other long-term liabilities:					
Advances from federal sponsors	498,861	-	95,443	403,418	-
Compensated absences	1,189,526	115,110	152,296	1,152,340	737,330
Other postemployment benefits liability	11,130,356		2,123,536	9,006,820	-
Total other long-term liabilities	12,818,743	115,110	2,371,275	10,562,578	737,330
Total long-term liabilities	$ 53,795,096	$ 115,110	$ 4,293,712	$ 49,616,494	$ 2,715,285

	2017				
	Beginning Balance	**Additions**	**Reductions**	**Ending Balance**	**Current Portion**
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	41,615,460	36,117,480	36,756,587	40,976,353	1,920,033
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	12,543,112	438,043	162,412	12,818,743	782,163
Total long-term liabilities	$ 54,158,572	$ 36,555,523	$ 36,918,999	$ 53,795,096	$ 2,702,196

7. CAPITAL LEASE AND NOTE PAYABLE

The University has a capital lease for one of its athletic fields that holds an interest rate of 1.67% and will mature in August 2020. 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 the Sara Cree building. This loan is to be paid back in semi-annual payments of $75,000 for the next 5 years.

Future annual payments on capital lease and note payable for years subsequent to June 30, 2018, are as follows:

Years Ending June 30,	Principal	Interest	Total
2019	297,277	4,240	301,517
2020	299,746	1,772	301,518
2021	175,200	52	175,252
2022	75,000	-	75,000
Total	$ 847,223	$ 6,064	$ 853,287

The net book value of capital assets held under the capital lease as of June 30, 2018 and 2017, was $923,463 and $1,045,158, net of accumulated depreciation of $901,953 and $780,258, respectively.

8. BONDS PAYABLE

Bonds payable as of June 30, 2018 and 2017, consisted of the following:

	Interest Rate	Annual Principal Installment Due	Principal Amount Outstanding	
			2018	2017
Refunding Revenue Bonds, due through 2033	2.10% - 4.375%	$400,000-460,000	5,065,000	5,455,000
Refunding Revenue Bonds, due through 2037	3.65%	$1,280,678-2,367,878	33,107,915	34,343,098
			38,172,915	39,798,098
Premium			33,978	36,182
			$ 38,206,893	$ 39,834,280

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.

8. BONDS PAYABLE (CONTINUED)

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, 2018 and 2017, 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, 2018 and 2017, gross revenues when combined with other monies legally available for payment of debt service were in excess of the maximum annual debt service.

8. BONDS PAYABLE (CONTINUED)

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 was 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, 2018, are as follows:

Years Ending	2013		2017		Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest
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	445,000	127,913	1,479,923	993,161	1,924,923	1,121,074
2024-2028	1,465,000	462,606	8,253,719	4,109,096	9,718,719	4,571,702
2029-2033	1,490,000	197,863	9,893,609	2,464,205	11,383,609	2,662,068
2034-2037	-	-	8,071,262	616,196	8,071,262	616,196
Total	$ 5,065,000	$ 1,423,031	$ 33,107,915	$ 13,047,066	$ 38,172,915	$ 14,470,097

9. OTHER POSTEMPLOYMENT BENEFITS

Employees of the University are enrolled in the West Virginia Other Postemployment Benefit Plan (the "OPEB plan") which is administered by the West Virginia Public Employees Insurance Agency ("PEIA") and the West Virginia Retiree Health Benefit Trust Fund (the "RHBT").

Following is the University's other postemployment benefits liability, deferred outflows of resources and deferred inflows of resources related to other postemployment benefits, revenues, and other postemployment benefits expense and expenditures for the fiscal year ended June 30, 2018 (dollars in thousands):

		2018
Net OPEB Liability	$	9,006,820
Deferred Outflows of Resources	$	798,039
Deferred Inflows of Resources	$	1,598,082
Revenues	$	567,909
Expenses	$	453,652
Contributions Made by University	$	798,039

Plan Description

The OPEB plan is a cost-sharing, multiple employer, defined benefit other post-employment benefit plan that covers the retirees of State agencies, colleges and universities, county boards of education, and other government entities as set forth in West Virginia Code Section 5-16D-2 (the "Code"). Plan benefits are established and revised by PEIA and the RHBT with approval of the Finance Board. The Finance Board is comprised of nine members. Finance Board members are appointed by the Governor, serve a term of four years and are eligible for reappointment. The State Department of Administration secretary serves as Chairman of the Board. Four members represent labor, education, public employees and public retirees. Four remaining members represent the public-at-large.

Active employees who retire are eligible for PEIA health and life benefits, provided they meet the minimum eligibility requirements of the applicable State retirement system and if their last employer immediately prior to retirement: is a participating employer under the Consolidated Public Retirement Board ("CPRB") and, as of July 1, 2008 forward, is a participating employer with PEIA. Active employees who, as of July 1, 2008, have ten years or more of credited service in the CPRB and whose employer at the time of their retirement does participate with CPRB, but does not participate with PEIA will be eligible for PEIA retiree coverage provided: they otherwise meet all criteria under this heading and their employer agrees, in writing, upon a form prescribed by PEIA, that the employer will pay to PEIA the non-participating retiree premium on behalf of the retiree or retirees, or that the retiree agrees to pay the entire unsubsidized premium themselves. Employees who participate in non-State retirement systems but that are CPRB system affiliated, contracted, or approved (such as TIAA-CREF and Empower Retirement), or are approved, in writing, by the PEIA Director must, in the case of education employees, meet the minimum eligibility requirements of the State Teachers Retirement System ("STRS"), and in all other cases meet the minimum eligibility requirements of the Public Employees Retirement System to be eligible for PEIA benefits as a retiree.

The financial activities of the OPEB plan are accounted for in the RHBT, a fiduciary fund of the State of West Virginia. The RHBT audited financial statements and actuarial reports can be found on the PEIA website at www.peia.wv.gov.

9. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Benefits Provided

The OPEB plan provides the following benefits: medical and prescription drug insurance and life insurance. The medical and prescription drug insurance is provided through two options: the self-insured preferred provider benefit plan option, which is primarily for non-Medicare-eligible retirees and spouses; and the external managed care organization option, which is primarily for Medicare-eligible retirees and spouses.

Contributions

Pay as you go premiums ("paygo") are established by the Finance Board annually. All participating employers are required by statute to contribute this premium to the RHBT at the established rate for every active policyholder per month. The active premiums subsidize the retirees' health care.

Members retired before July 1, 1997 pay retiree healthcare contributions at the highest sponsor subsidized rate, regardless of their actual years of service. Members retired between July 1, 1997 and June 30, 2010; pay a subsidized rate depending on the member's years of service. Members hired on or after July 1, 2010, pay retiree healthcare contributions with no sponsor provided implicit or explicit subsidy.

Retiree leave conversion contributions from the employer depend on the retiree's date of hire and years of service at retirement as described below:

- Members hired before July 1, 1988 may convert accrued sick or vacation leave days into 100% of the required retiree healthcare contribution.

- Members hired from July 1, 1988 to June 30, 2001 may convert sick or vacation leave days into 50% of the required retiree healthcare contribution.

The conversion rate is two days of unused sick and vacation leave days for one month of single healthcare coverage and three days of unused sick and vacation leave days for one month of family healthcare coverage.

Employees hired on or after July 1, 2001 no longer receive sick and/or vacation leave credit toward the required retiree healthcare contribution when they retire. All retirees have the option to purchase continued coverage regardless of their eligibility for premium credits.

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 coverage for one year of family coverage. Faculty hired after July 1, 2009 no longer receives years of service credit toward insurance premiums when they retire. Faculty hired on or after July 1, 2010 receives no health insurance premium subsidy when they retire. 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 had an original hire date prior to July 1, 2010 may return to active employment. In those cases, the original hire date may apply.

9. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Assumptions

The net OPEB liability for financial reporting purposes was determined by an actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017. The following actuarial assumptions were used and applied to all periods included in the measurement:

- Actuarial cost method: Entry age normal cost method.
- Amortization method and period: Level percentage of payroll over 21 years; closed as of June 30, 2016.
- Investment rate of return: 7.15%, net of OPEB plan investment expense, including inflation.
- Projected salary increases: dependent on pension system ranging from 3.00% to 6.50%, including inflation.
- Healthcare cost trend rates: Actual trend used for fiscal year 2017. For fiscal years on and after 2018, trend starts at 8.50% and 9.75% for pre- and post-Medicare, respectively, and gradually decreases to an ultimate trend of 4.50%. Excess trend rate of 0.14% and 0.29% for pre- and post-Medicare, respectively, is added to healthcare trend rates pertaining to per capita claims costs beginning in 2020 to account for the Excise Tax.
- Inflation rate: 2.75%.
- Discount rate: 7.15%
- Mortality rates: based on RP-2000 Mortality Tables.

The long-term investment rate of return of 7.15% on OPEB plan investments was determined by a combination of an expected long-term rate of return of 7.50% for long-term assets invested with the West Virginia Investment Management Board ("IMB") and an expected short-term rate of return of 3.0% for assets invested with the WV Board of Treasury Investments ("BTI").

Long-term pre-funding assets are invested with the IMB. The strategic asset allocation consists of 55% equity, 15% fixed income, 10% private equity, 10% hedge fund and 10% real estate invested. Short-term assets used to pay current year benefits and expenses are invested with the BTI.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which estimates of expected future real rates of return (expected returns, net of OPEB 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 percentages and by adding expected inflation. Best estimates of the long-term geometric rates for each major asset class are summarized below.

9. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010 through June 30, 2015.

Asset Class	Long-term Expected Real Rate of Return
Large Cap Domestic	17.0%
Non-Large Cap Domestic	22.0%
International Qualified	24.6%
International Non-Qualified	24.3%
International Equity	26.2%
Short-Term Fixed	0.5%
Total Return Fixed Income	6.7%
Core Fixed Income	0.1%
Hedge Fund	5.7%
Private Equity	19.6%
Real Estate	8.3%
Opportunistic Income	4.8%
Cash	0.0%

Discount rate. The discount rate used to measure the OPEB liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that RHBT contributions will be made at rates equal to the actuarially determined contribution rates, in accordance with prefunding and investment policies. Based on those assumptions, the OPEB plan's 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 OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. Discount rates are subject to change between measurement dates.

Sensitivity of the net pension liability to changes in the discount rate. The following presents the University's proportionate share of the net OPEB liability as of June 30, 2016 calculated using the discount rate of 7.15%, as well as what the University's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.15%) or one percentage point higher (8.15%) than the current rate (dollars in thousands):

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% increase (8.15%)
Net OPEB Liability	$ 10,487,408	$ 9,006,820	$ 7,776,038

9. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Sensitivity of the net OPEB liability to changes in healthcare cost trend rates. The following presents the University's proportionate share of the net OPEB liability as of June 30, 2016 calculated using the current healthcare cost trend rates, as well as what the University's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current rates (dollars in thousands):

	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Net OPEB Liability	$ 7,565,857	$ 9,006,820	$ 10,769,198

OPEB Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability at June 30, 2018 was measured as of June 30, 2016 and rolled forward to June 30, 2017, which is the measurement date. The total OPEB liability at June 30, 2018 was determined by an actuarial valuation as of June 30, 2016 and rolled forward to the measurement date.

At June 30, 2018, the amount recognized as the University's proportionate share of the net OPEB liability was approximately $9,006,820. At June 30, 2018, the nonemployer contributing entity's (State of West Virginia) portion of the collective net OPEB liability is $1,850,010 and the total net OPEB liability attributable to the University is $10,856,830.

The allocation percentage assigned to each contributing employer is based on the employer's proportionate share of employer contributions to the RHBT for the fiscal years ended June 30, 2017 and June 30, 2016. Employer contributions are recognized when due. At June 30, 2017, the University's proportion was .366281428%, a decrease of .072791% from its proportion of .439072004% calculated as of June 30, 2016.

For the year ended June 30, 2018, the University recognized OPEB expense of $1,021,561. Of this amount, $453,652 was recognized as the University's proportionate share of the OPEB expense, and $567,909 as the amount of OPEB expense attributed to special funding. The University also recognized revenue of $567,909 for support provided by the State.

At June 30, 2018, deferred outflows of resources and deferred inflows of resources related to OPEB are as follows (dollars in thousands):

	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Changes in proportion and difference between employer contributions and proportionate share of contributions	$ -	$ 1,424,168
Net difference between projected and actual investment earnings	-	143,755
Differences between expected and actual experience	-	30,159
Contributions after the measurement date	798,039	-
Total	$ 798,039	$ 1,598,082

9. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The University will recognize the $798,039 reported as deferred outflows of resources resulting from OPEB contributions after the measurement date as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (dollars in thousands):

Fiscal Year Ended	Amortization
June 30, 2019	$ 427,518
June 30, 2020	427,518
June 30, 2021	427,518
June 30, 2022	315,528
	$ 1,598,082

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, 2018 and 2017 are as follows:

	2018	2017
Other	$ 18,303	$ 18,520

11. UNRESTRICTED COMPONENTS OF NET POSITION

The University did not have any board designated unrestricted components of net position as of June 30, 2018 or 2017.

	2018	2017
Total unrestricted net position before OPEB and net pension liability	$ 5,380,972	$ 9,290,199
Less Net pension liability	(266,966)	(391,112)
Less OPEB liability	(9,006,820)	(11,130,356)
Total unrestricted component of net position	$ (3,892,814)	$ (2,231,269)

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, 2018 and 2017, 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.

12. DEFINED CONTRIBUTION PLANS (CONTINUED)

The total contributions that the University was required to contribute to the TIAA-CREF for the years ended June 30, 2018, 2017, and 2016, were $2,120,386, $2,622,058, and $2,505,942, respectively, which consisted of approximately equal contributions from the University and covered employees in 2018, 2017, and 2016 of $1,063,404, $1,312,206, and $1,252,971, respectively.

The total contributions that the University was required to contribute to the Great West for the years ended June 30, 2018, 2017, and 2016, were $81,847, $96,788, and $117,204, respectively, which consisted of equal contributions from the University and the covered employee in 2018, 2017, and 2016 of $41,241, $48,394, and $58,602, respectively.

The University’s total payroll for the years ended June 30, 2018 and 2017 was $26,695,420 and $27,063,149, respectively, and total covered employees’ salaries in TIAA-CREF and Great West were, $17,723,397 and $687,347 in 2018, and $21,870,099 and $806,569 in 2017, 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, 2018 and 2017:

	2018	2017
Net Pension Liability	$ 266,966	$ 391,112
Deferred Outflows of Resources	$ 49,257	$ 87,680
Deferred Inflows of Resources	$ 200,261	$ 195,219
Revenues	$ 60,136	$ 69,507
Pension Expense	$ (45,467)	$ (28,111)
Contributions Made by Shepherd	$ 35,214	$ 34,322

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. 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.

13. DEFINED BENEFIT PENSION PLAN (CONTINUED)

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 $57,241 and $66,128 as of June 30, 2018 and 2017, respectively.

The University's contributions to TRS for the years ended June 30, 2018, 2017, and 2016, were approximately $35,214, $34,322, and $35,215, respectively.

Assumptions

The total pension liabilities for financial reporting purposes were determined by actuarial valuations as of June 30, 2016 and rolled forward to June 30, 2017. 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: 4-year 25% level smoothing of actuarial gain or (loss) on trust fund return
- 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.
- Projected salary increases: Teachers 3.00–6.00% and non-teachers 3.00–6.50%, based on age.
- Inflation rate of 3.0%.
- Discount rate of 7.50%
- Mortality rates based on RP-2000 Non-Annuitant Tables.
- Withdrawal rates: Teachers 0.8-35.0% and non-teachers 1.316-24.75%.
- Disability rates: 0.006-0.704%
- Retirement age: An age-related assumption is used for participants not yet receiving payments.

13. DEFINED BENEFIT PENSION PLAN (CONTINUED)

- 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, 2017, 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%
TIPS	2.7%	0.0%
Real Estate	7.0%	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, 2017.

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, 2018 and 2017 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).

13. DEFINED BENEFIT PENSION PLAN (CONTINUED)

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability as of June 30, 2018	$ 351,472	$ 266,966	$ 194,761
Net Pension Liability as of June 30, 2017	$ 494,764	$ 391,112	$ 302,477

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, 2017 and 2016. The total pension liability was determined by an actuarial valuation as of June 30, 2016 and rolled forward to the measurement date June 30, 2017.

The University's proportionate share of the TRS net pension liability as of June 30, 2018 and 2017 are as follows:

	2018	**2017**
Recognized University Net Pension Liability	$ 266,966	$ 391,112
University's proportionate share of net pension liability due to special funding situation	590,374	744,964
Total University Proportionate Share of TRS Net Pension Liability	$ 857,340	$ 1,136,076

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, 2017 and 2016. Employer contributions are recognized when due. At June 30, 2017 and 2016, the University's proportion was 0.007727% and 0.009516%, respectively.

The University recognized TRS pension expense for the years ended June 30, 2018 and 2017 as follows:

	2018	**2017**
University's porportionate share of TRS expense	$ (102,708)	$ (94,239)
Pension expense attributable to special funding from a non-employer contributing entity	57,241	66,128
Total TRS pension expense	$ (45,467)	$ (28,111)

The University also recognized revenue of $60,136 and $69,507 for support provided by the State for years ended June 30, 2018 and 2017, respectively.

13. DEFINED BENEFIT PENSION PLAN (CONTINUED)

At June 30, 2018, deferred outflows of resources and deferred inflows of resources related to the TRS pension are as follows:

		2018		2017
Deferred Outflows of Resources				
Differences between expected and Actual Experience	$	2,321	$	-
Changes in Proportion and difference between employer contributions and proportinate share of contributions		1,693		53,358
Changes in assumptions		10,029		-
Contributions after the measurment date		35,214		34,322
Total Deferred Outflows of Resources	$	49,257	$	87,680
Deferred Inflows of Resources				
Changes in Proportion and difference between employer contributions and proportinate share of contributions	$	187,115	$	179,242
Net difference between projected and actual investment earnings		8,391		13,693
Differences between expected and actual experience		4,755		2,284
Total Deferred Inflows of Resources	$	200,261	$	195,219

The University will recognize the 2018 pension contributions of $35,214 as a reduction of the TRS net pension liability in the year ended June 30, 2018. Other 2018 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, 2019	$	(73,000)
June 30, 2020		(58,548)
June 30, 2021		(25,932)
June 30, 2022		(17,037)
June 30, 2023		(11,701)
	$	(186,218)

Payables to the pension plan

The University did not report any amounts payable for normal contributions to the TRS as of June 30, 2018 and 2017.

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, 2018 and 2017, the Foundation's net assets (including unrealized gains) totaled $28,460,540 and $28,421,069, 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, 2018 and 2017, the Foundation contributed $1,646,489 and $1,442,908, 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 $118,405 and $239,577 for the years ended June 30, 2018 and 2017, 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.

16. **COMMITMENTS AND CONTINGENCIES** (CONTINUED)

Future minimum payments under non-cancellable operating leases are as follows at June 30:

	Leases
2019	$ 114,699
2020	118,140
2021	121,684
2022	125,335
2023	129,095
Total minimum lease payments	$ 608,953

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, 2018 or 2017.

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.

16. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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. POTOMAC PLACE

Completion of the Potomac Place residence hall occurred in July, 2017 and became available for student housing in the Fall Semester of 2017. This 300-bed student housing facility, including the buildings, furniture, fixtures, machinery and equipment and related facilities is subject to a Ground Lease Agreement between the University and the Shepherd University Foundation Supporting Organization (SUFSO), where the University is the “Lessor” and the SUFSO is the “Lessee” and a Management Agreement exists between the two entities with the University fulfilling the duties of the “Manager” and the SUFSO.

The Ground Lease Agreement will expire upon the repayment of all associated outstanding debt borrowed by the Supporting Organization, scheduled for full repayment in approximately forty (40) years. 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 audited financial statements of the SUFSO, beginning in June, 2018.

In the Management Agreement, the SUFSO appoints the University as its exclusive agent for the construction, operation, management and maintenance of the Project and the University accepts the appointment, subject to the terms and conditions set forth in this Agreement. The University agrees to comply with the terms and conditions of the Ground Lease; and the University agrees to use its commercially reasonable efforts to manage the Project in accordance with the provisions of the Ground Lease applicable to the operation, use, management, repair, and modification of the Project.

18. SEGMENT INFORMATION

Condensed statements of net position as of June 30, 2018 and 2017:

	Refunding Revenue Bonds 2013		Refunding Revenue Bonds 2017	
	2018	2017	2018	2017
Assets:				
Current assets	4,049,283	3,151,934	7,103,646	10,382,390
Noncurrent assets	7,345,410	7,190,214	37,556,789	36,430,690
Total assets	11,394,693	10,342,148	44,660,435	46,813,080
Liabilities:				
Current liabilities	493,006	852,143	2,422,978	1,851,295
Noncurrent liabilities	4,698,978	5,101,182	31,827,237	33,107,916
Total liabilities	5,191,984	5,953,325	34,250,215	34,959,211
Net position:				
Net investment in capital assets	2,246,430	1,699,030	4,429,215	2,064,547
Restricted:				
Unrestricted	3,956,279	2,689,793	5,981,005	9,789,322
Total net position	6,202,709	4,388,823	10,410,220	11,853,869
Total net position and liabilities	11,394,693	10,342,148	44,660,435	46,813,080

Condensed statements of revenues, expenses, and changes in net position for the years ended June 30, 2018 and 2017:

	Refunding Revenue Bonds 2013		Refunding Revenue Bonds 2017	
	2018	2017	2018	2017
Operating:				
Operating revenues	$ 2,473,982	$ 2,580,379	$ 14,029,739	$ 4,077,511
Operating expenses	(642,423)	(637,379)	(14,416,284)	(3,608,594)
Net operating income	1,831,559	1,943,000	(386,545)	468,917
Nonoperating:				
Nonoperating revenues	184,594	119,136	183,108	11,856,504
Nonoperating expenses	(202,267)	(214,808)	(1,240,212)	(471,552)
Net nonoperating loss	(17,673)	(95,672)	(1,057,104)	11,384,952
Increase (decrease) in net assets	1,813,886	1,847,328	(1,443,649)	11,853,869
Net position — beginning of year	4,388,823	2,541,495	11,853,869	-
Net position — end of year	$ 6,202,709	$ 4,388,823	$ 10,410,220	$ 11,853,869

Condensed statements of cash flows for the years ended June 30, 2018 and 2017:

	Refunding Revenue Bonds 2013		Refunding Revenue Bonds 2013	
	2018	2017	2018	2017
Net cash provided by (used in) operating activities	$ 1,867,923	$ 2,337,895	$ 1,098,289	$ 769,162
Net cash used in capital and related financing	(960,704)	(1,356,177)	(3,902,541)	8,900,772
Net cash provided by (used in) \investing activities	-	-	-	-
Increase (decrease) in cash and cash equivalents	907,219	981,718	(2,804,252)	9,669,934
Cash and cash equivalents — beginning of year	2,881,195	1,899,477	9,669,934	-
Cash and cash equivalents — end of year	$ 3,788,414	$ 2,881,195	$ 6,865,682	$ 9,669,934

19. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2018 and 2017, the following represents operating expenses within both natural and functional classifications:

2018	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Fees Assessed by the Commission	Total
Instruction	$ 13,461,874	$ 2,557,802	$ 1,659,687	$ 4,473	$ -	$ -	$ -	$ 17,683,836
Research	158,624	18,100	75,725	-	-	-	-	252,449
Public service	130,513	19,645	46,208		-	-	-	196,366
Academic support	1,805,006	303,144	909,276	1,163	-	-	-	3,018,589
Student services	2,180,238	434,096	773,522	788	-	-	-	3,388,644
General institutional support	3,024,815	1,668,293	2,261,342	331	-	-	-	6,954,781
Operations and maintenance of plant	1,544,846	354,751	1,488,590	1,914,784	-	-	-	5,302,971
Student financial aid	-	-	-	-	2,236,855	-	-	2,236,855
Auxiliary enterprises	4,389,504	852,059	5,614,184	1,632,011	-	-	-	12,487,758
Depreciation	-	-	-	-	-	6,628,656	-	6,628,656
Other	-	-	-	-	-	-	242,126	242,126
Total	$ 26,695,420	$ 6,207,890	$ 12,828,534	$ 3,553,550	$ 2,236,855	$ 6,628,656	$ 242,126	$ 58,393,031

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
Total	$ 27,063,149	$ 6,464,841	$ 12,250,664	$ 3,511,955	$ 2,164,214	$ 6,718,282	$ 259,299	$ 58,432,404

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. The major program of the Shepherd University Foundation Supporting Organization is the construction and operation of a dormitory for students attending Shepherd University.

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.

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 uncollectable 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%.

Dormitory Revenue, Accounts Receivable and Deferred Revenues

Revenues related to the operation of the dormitory are recognized in the period the related housing and services are provided. To the extent applicable, deferred revenue is recognized for any advanced payments received from students and others prior to the period of the rental. Accounts receivable primarily represents amounts due for dormitory rentals that occurred prior to the financial statement date. Management determines an allowance for doubtful accounts by regularly evaluating the individual receivables and considering the student’s financial condition and payment history.

Receivables are written off when deemed uncollectible. As of June 30, 2018 and 2017, management feels all receivables will be collected and therefore, has not established an allowance for doubtful accounts.

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 $5,000 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
Office equipment	3-7
Dormitory building and improvements	40
Dormitory furniture and fixtures	5

Loan Origination Costs

The Foundation follows 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 accounting standard, the Foundation has 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.

In February 2018, the Shepherd University Supporting Organization incurred loan origination costs of $26,890 associated with the permanent refinancing of the WV Economic Development Authority bond anticipation notes with a USDA loan. These costs are being amortized using the straight-line method over the life of the related debt, which is 40 years.

In June 2016, the Shepherd University Foundation Supporting Organization incurred loan origination costs of $589,063 associated with interim financing received from the WV Economic Development Authority. These costs were amortized using the straight-line method over the life of the related debt, which was 19 months and 20 days. Upon the permanent refinancing of the debt in February 2018, these costs were fully amortized, and the associated cost and accumulated amortization were written off.

Advertising

Advertising costs are expensed as incurred and amounted to $2,666 and $3,890 for the years ended June 30, 2018 and 2017, 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.

Transfers
Transfers reported on the consolidated statement of activities generally represent the movement of a fund's existing net assets to the net assets of another fund with a different level of restriction. Transfers can occur when the donor of a fund changes the associated restriction of an established fund to another purpose or if the donor wishes to distribute available earnings on an existing fund to another fund within the Foundation.

During the year ended June 30, 2018, there was a large transfer, in the amount of $5,933,137, from a permanently restricted fund into an unrestricted operating fund of the Foundation. This transfer occurred per the instructions of the donor.

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.

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. Shepherd University Foundation, Inc. has also been classified as a public charity under Section 509(a)(1) of the Internal Revenue Code and Shepherd University Foundation Supporting Organization has been classified as a public charity under Section 509(a)(3) of the Internal Revenue Code.

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.

Recent Accounting Pronouncement ASU 2015-07

In May 2015, the FASB issued Accounting Standards Update No. 2015-07 ("ASU 2015-07"), *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its equivalent)*, amendments to Fair Value Measurement (Topic 820). ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share (or its equivalent) practical expedient. The amendment also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share (or its equivalent) practical expedient. Rather, those disclosures are limited to investments for which the Foundation has elected to measure the fair value using that practical expedient. The amendments are effective for fiscal years beginning after December 15, 2016. The applicable amendments of ASU 2015-07 have been applied retrospectively to all periods presented.

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, 2018.

NOTE 2 RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash includes cash and cash equivalents held in demand accounts at financial institutions or brokerage firms that are associated with custodial liabilities or restricted funds held within the organization. Also, in connection with the USDA loan discussed in Note 10, commencing in February 2018, the Foundation is required maintain a debt service reserve account and property replacement reserve account. The Foundation is required to make monthly deposits of at least $7,685 to the debt service reserve account until the account balance reaches $922,092. The Foundation also must make monthly deposits of at least $4,800 into a property replacement reserve account. The deposits into the property replacement reserve account are required to increase by 3% each February until the USDA loan is paid off. Restricted cash also included unspent funds received from the WV Economic Development Authority bond anticipation notes. These unspent funds were repaid to the WV Economic Development Authority in February 2018, when the note matured.

NOTE 2 RESTRICTED CASH AND CASH EQUIVALENTS (CONTINUED)

Restricted cash and cash equivalents consisted of the following at June 30, 2018 and 2017:

	2018	2017
Cash associated with a custodial liability or restricted fun	$ 2,530,864	$ 2,297,407
Debt service reserve account	38,961	-
Property replacement reserve account	24,047	-
Unspent WV Economic Development bond proceeds	-	5,537,707
	$ 2,593,872	$ 7,835,114

NOTE 3 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, 2018 and 2017 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.

	2018	2017
Receivable in less than one year	$ 679,410	$ 616,020
Receivable in one to five years	2,769,841	3,129,560
Receivable over five years	-	356,000
Total pledges receivable	3,449,251	4,101,580
Less discount to net present value	(337,204)	(517,067)
Net Pledges Receivable	$ 3,112,047	$ 3,584,513

NOTE 4 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, 2018 and 2017 are composed of the following:

Description	Cost	Market
2018		
Certificates of deposit	$ 684,628	$ 684,628
Government securities	1,319,757	1,291,923
Corporate bonds and notes	1,487,575	1,424,281
Mutual funds	15,397,813	18,064,962
Stocks	1,465,935	1,984,237
Investment Securities	$ 20,355,708	$ 23,450,031
2017		
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	1,698,406	2,083,416
Investment Securities	$ 20,463,221	$ 22,912,305

At June 30, 2018 and 2017, there was $1,942,285 and $1,575,313, 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:

Description	Cost	Accumulated Depreciation	Net Book Value
2018			
Land	$ 40,000	$ -	$ 40,000
Building	160,202	91,448	68,754
	$ 200,202	$ 91,448	$ 108,754
2017			
Land	$ 40,000	$ -	$ 40,000
Building	160,202	87,443	72,759
	$ 200,202	$ 87,443	$ 112,759

NOTE 4 INVESTMENTS (CONTINUED)

Depreciation expense related to investment in real estate amounted to $4,005 for each year ended June 30, 2018 and 2017, respectively.

The following is a summary of the Foundation's investments at June 30, 2018 and 2017:

Description	2018	2017
Investment securities	$ 23,450,031	$ 22,912,305
Real estate	108,754	112,759
	$ 23,558,785	$ 23,025,064

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

NOTE 5 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 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, 2018 and 2017 were $369,589 and $352,032, 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 6 STUDENT HOUSING FACILITY PROJECT

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. As disclosed in Note 10, the Supporting Organization refinanced the West Virginia Economic Development bond anticipation notes with a 40-year permanent rural development loan from the United States Department of Agriculture.

The Supporting Organization owns 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. Rent expense due to Shepherd University for the ground lease amounted to $965,782 and $0 for the years ended June 30, 2018 and 2017, respectively.

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. No additional fees, outside of the ground lease payments, are payable to Shepherd University for these services.

Construction in progress reported on the consolidated statements of financial position at June 30, 2018 and 2017 of $0 and $18,927,071, 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 was recognized on these costs until the construction was completed and the building was placed into service in August 2017, at which point $21,095,102 was capitalized.

The dorm room rental fee rates, number of students served per semester and total fees collected on student dorm room rentals are noted below for the year ended June 30, 2018. The dormitory was not in service for the year ended June 30, 2017.

		2018
Single Bed Rate - Term	$	4,275.00
Double Bed Rate - Term	$	3,188.00
Single Bed Rate - Daily	$	37.50
Double Bed Rate - Daily	$	27.96
Total Students Served - Fall Semester		282
Total Students Served - Spring Semester		263
Student Dorm Room Revenue During School Year	$	1,824,108
Dorm Rental for Summer Conferences		27,330
Rental Revenue from SU for Food Market		27,990
Late Fees and Fees for Damages		8,433
Less: Student Dorm Room Waivers		(49,498)
Total Net Dorm Room Rental for Fiscal Year	$	1,838,363
Total Cash Collected on Current Year Accounts	$	1,803,183

NOTE 7 PROPERTY AND EQUIPMENT

Equipment consists of the following:

	2018	2017
Office equipment	$ 22,299	$ 18,669
Dormitory building and improvements	20,082,300	-
Dormitory furniture and fixtures	1,012,802	-
	21,117,401	18,669
Less: accumulated depreciation	(655,402)	(13,614)
Net Book Value	$ 20,461,999	$ 5,055

Depreciation expense related to property and equipment was $648,059 and $3,079 for the years ended June 30, 2018 and 2017, respectively.

The cost, accumulated depreciation and depreciation expense related to investments in real estate, as disclosed in Note 4, are excluded from the above property and equipment disclosure.

NOTE 8 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 and gains on investments for the custodial accounts for the years ended June 30, 2018 and 2017 are as follows:

	2018	2017
Custodial receipts	$ 260,631	$ 200,870
Custodial payments	(582,281)	(615,343)
Interest and gains on investments	5,455	3,074
Net (Decrease) in Custodial Liabilities	$ (316,195)	$ (411,399)

NOTE 9 GIFT ANNUITIES

The Foundation has entered into several charitable gift annuity agreements with donors. Charitable gift annuities represent a gift of cash, investments or other assets from a donor. In return, the donor receives a fixed stream of income from the Foundation for the rest of their life. Upon the end of the donor's life, the Foundation takes ownership of the remainder of the gift. 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 $108,325 and $122,146 for the years ended June 30, 2018 and 2017, respectively.

NOTE 10 LOANS PAYABLE

As disclosed in Note 6, 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 matured on February 1, 2018 and required semi-annual interest only payments on August 1 and February 1 of each loan year. On February 1, 2018, all outstanding interest and principal was repaid using the financing provided by the USDA rural development loan noted below. The bond anticipation bonds were secured by a leasehold deed of trust on the student housing facility project, which was released upon repayment of the notes.

On January 19, 2018, the Shepherd University Supporting Organization borrowed $21,892,000 under a 40-year USDA rural development loan to pay off the West Virginia Economic Development Authority bond anticipation notes maturing February 1, 2018. The USDA loan requires monthly principal and interest payments of $76,841, including interest fixed at 2.875%. The loan is scheduled to mature on January 19, 2058. The USDA loan is secured by a leasehold deed of trust on the student housing facility project, including all real property and any furniture, fixtures and equipment related to the housing facility. In addition, all revenues, accounts receivable and intangibles associated with the student housing project have been assigned and pledged to the USDA. As disclosed in Note 2, under the USDA loan agreement, the Shepherd University Supporting Organization is required to maintain and make monthly deposits into a debt service reserve bank account and property replacement reserve bank account.

The carrying value of the collateral securing the above loans was $20,449,203 and $18,927,071 at June 30, 2018 and 2017, respectively. Total interest capitalized during the construction period of the student housing facility project amounted to $311,669 and $273,301 at June 30, 2018 and 2017, respectively.

NOTE 10 LOANS PAYABLE (CONTINUED)

The balance of loans payable, net of loan costs, at June 30, 2018 and 2017 is as follows:

	2018	2017
USDA Rural Development Loan	$ 21,767,572	$ -
WVEDA Series 2016A Bond	-	22,035,000
WVEDA Series 2016B Taxable Bond	-	350,000
	21,767,572	22,385,000
Less loan costs, net of accumulated amortization of $308 and $380,852	(26,582)	(208,211)
	$ 21,740,990	$ 22,176,789

The future required principal payments as of June 30, 2018 are as follows:

Year Ending June 30,	
2019	$ 300,189
2020	307,247
2021	317,885
2022	327,145
2023	336,675
Thereafter	20,178,431
	$ 21,767,572

Amortization of loan costs charged to interest expense for the years ended June 30, 2018 and 2017 was $208,519 and $359,367, respectively. Amortization for the year ended June 30, 2018 included $208,211 of loan cost amortization associated with the WV Economic Development Authority bond anticipation notes that were repaid during the year.

NOTE 11 EMPLOYEE RETIREMENT 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, 2018 and 2017 was $13,606 and $13,959, respectively.

NOTE 12 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 13 RELATED PARTY TRANSACTIONS – SHEPHERD UNIVERSITY

The Foundation is a component unit of Shepherd University (University). The Shepherd University Foundation, Inc. provides scholarships and support for the students, facilities and programs of the University. Total scholarships, awards and college support provided to the University and students attending the University amounted to $2,377,696 and $1,864,385 for the years ended June 30, 2018 and 2017, respectively.

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, 2018 and 2017, respectively.

In August 2017, the Shepherd University Foundation Supporting Organization entered into an agreement to lease 1,490 square feet on the ground floor of the student housing facility to the University for the purpose of operating a food service market to serve the students of the facility. The lease is set to expire on June 30, 2020 and requires monthly payments of $2,700, prorated at the month of inception. Total rental revenue from this lease agreement amounted to $27,990 and $0 for the years ended June 30, 2018 and 2017, respectively.

As disclosed in Note 6, 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. Total expense incurred under these agreements amounted to $965,782 and $0 for the years ended June 30, 2018 and 2017, respectively. As part of the management agreement, the University acts as the Supporting Organization's exclusive agent for the operation, management and maintenance of the student housing facility project. As a result, the University collects payments from students and pays operating expenses associated with the student housing facility project on behalf of the Supporting Organization. Amounts due from the University related to the collection of student receivables and rental payments associated with the food market lease noted above amounted to $9,273 and $0, respectively. Amounts due to the University for reimbursement of operating expenses and payment of the ground lease fee noted above amounted to $1,007,017 and $0, respectively.

NOTE 14 FAIR VALUE MEASUREMENTS

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

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

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

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

Fair value of assets measured on a recurring basis at June 30, 2018 and 2017 are as follows:

	Assets at Fair Value			
	Total	**Level 1**	**Level 2**	**Level 3**
2018				
Pledges receivable	$ 3,112,047	$ -	$ -	$ 3,112,047
Government securities				
US Treasuries	803,997	803,997	-	-
Agency Securities	140,581	-	140,581	-
Municipal Bonds	86,681	-	86,681	-
Mortgage Pools	260,664	-	260,664	-
Corporate Bonds	1,424,281	-	1,424,281	-
Mutual funds				
US Large Cap	4,161,937	4,161,937	-	-
US Small and Mid-Cap	2,350,392	2,350,392	-	-
International Equity	2,732,047	2,732,047	-	-
US Short-Term Bond	300,621	300,621	-	-
International Fixed Income	699,029	699,029	-	-
High-Yield Bond	510,217	510,217	-	-
REITs	596,099	596,099	-	-
Options-Based Equity	35,112	35,112	-	-
Hedged Equity	2,585,237	2,585,237	-	-
Diversified Alternatives	3,111,468	3,111,468	-	-
Stocks				
US Small and Mid-Cap	714,865	714,865	-	-
US Large Cap	207,178	207,178	-	-
International Equity	1,062,194	1,062,194	-	-
Total Assets in the Fair Value Hierarchy	24,894,647	19,870,393	1,912,207	3,112,047
Investments Measured at Net Asset Value [(a)]				
Multi-Strategy Fund	982,803	-	-	-
Total Assets at Fair Value	$ 25,877,450	$ 19,870,393	$ 1,912,207	$ 3,112,047

	Assets at Fair Total	Level 1	Level 2	Level 3
2017				
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	-	-
REITs	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	987,079	987,079	-	-
Managed Futures	693,897	693,897	-	-
Stocks				
US Small and Mid-Cap	694,517	694,517	-	-
US Large Cap	463,371	463,371	-	-
International Equity	925,528	925,528	-	-
Total Assets in the Fair Value Hierarchy	24,893,188	19,806,779	1,501,896	3,584,513
Investments Measured at Net Asset Value [(a)]				
Multi-Strategy Fund	922,274	-	-	-
Total Assets at Fair Value	$ 25,815,462	$ 19,806,779	$ 1,501,896	$ 3,584,513

(a) In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented on the statements of financial position.

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.

Total realized gain (loss) for the investments noted above that is included in the change in net assets at June 30, 2018 and 2017 was $158,822 and ($55,517) respectively. The unrealized gain for the investments noted above that is included in the change in net assets at June 30, 2018 and 2017 was $645,893 and $1,764,167 respectively.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) consist of pledges receivable. The changes in Level 3 assets are as follows for the years ended June 30, 2018 and 2017:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Pledges Receivable	
June 30, 2018		
Fair Value as of July 1, 2017	$	3,584,513
New pledges		59,450
Pledges written off		(1,000)
Payments received		(710,779)
Change in valuation		179,863
Fair Value as of June 30, 2018	$	3,112,047
June 30, 2017		
Fair Value as of July 1, 2016	$	3,198,673
New pledges		902,500
Payments received		(601,937)
Change in valuation		85,277
Fair Value as of June 30, 2017	$	3,584,513

Investments Measured Using the Net Asset Value per Share Practical Expedient

The following table summarizes investments for which fair value is measured using the net asset value per share practical expedient as of June 30, 2018 and 2017.

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
June 30, 2018				
Ironwood Fund [(a)]	$ 982,803	N/A	Semi-Annually	95 days
June 30, 2017				
Ironwood Fund [(a)]	$ 922,274	N/A	Semi-Annually	95 days

(a) The Ironwood Institutional Multi-Strategy Fund, LLC (Ironwood Fund) is a speculative fund of funds. The Ironwood Fund's investment objective is capital appreciation with limited variability of returns. The Ironwood Fund attempts to achieve this objective by allocating capital among a number of pooled investment vehicles that are generally organized in non-U.S. jurisdictions and classified as corporations for U.S. federal income tax purposes. Each investment vehicle is managed by an independent investment manager pursuant to various alternative investment strategies, including relative value; market neutral and low net equity; event-driven; and distressed and credit securities.

NOTE 15 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 25% to 75% of the total fund, alternatives in the range of 5% to 45%, fixed income securities in the range of 0% to 40%, and cash in the range of 0% to 20%.

Endowment net assets consisted of donor permanently restricted endowment funds of $20,718,853 and $25,947,274 as of June 30, 2018 and 2017, 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, 2018 and 2017 were as follows:

Endowment Net Assets at July 1, 2016	$ 25,232,749
Investment income	21,689
Contributions	688,224
Transfers	4,612
Endowment Net Assets at June 30, 2017	$ 25,947,274
Investment income	26,326
Contributions	660,359
Transfers	(5,915,106)
Endowment Net Assets at June 30, 2018	$ 20,718,853

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, 2018 and 2017.

NOTE 16 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 as scholarship disbursements from funds in excess of the actual unrealized and realized investment earnings of prior years.

NOTE 16 UNRESTRICTED NET ASSET DEFICIT (CONTINUED)

In addition, excess of expenses over revenues generated from the student facility project has contributed to the unrestricted net asset deficit. 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, reduce operating expenses or generate revenues from another outside source. The balance of the unrestricted net asset deficit was $(1,283,767) and $(6,230,161) for the years ended June 30, 2018 and 2017, respectively. Of this deficit, $(101,209) and $(5,856,362) related to Shepherd University Foundation Inc. for the years ended June 30, 2018 and 2017, respectively and $(1,182,558) and $(373,799) related the Shepherd University Foundation Supporting Organization for the years ended June 30, 2018 and 2017, respectively.

NOTE 17 SUBSEQUENT EVENTS

The Foundation has evaluated events and transactions subsequent to June 30, 2018 through September 5, 2018, 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, 2018 and through September 5, 2018, that require recognition or disclosure in the financial statements.

SHEPHERD UNIVERSITY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULES OF PROPORTIONATE SHARE AND CONTRIBUTIONS

1. NET PENSION LIABILITY

Schedule of Proportionate Share

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	Unversity'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%
June 30, 2017	0.77270%	$ 266,966	$ 590,374	$ 857,340	$ 271,237	98.42536%	66.25%

Schedule of Employer Contributions of TRS

Measurement Date	Actuarily Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contributions as a percentage of Covered Payroll
June 30, 2014	$ 59,257	$ 59,998	$ (741)	$ 486,027	12.34458%
June 30, 2015	$ 42,953	$ 42,953	$ (0)	$ 375,501	11.43885%
June 30, 2016	$ 36,894	$ 36,894	$ -	$ 478,614	7.70851%
June 30, 2017	$ 31,988	$ 34,322	$ (2,334)	$ 271,237	12.65388%

2. NET OPEB LIABILITY

Schedule of Proportionate Share

Measurement Date	University's Proportionate Share as a Percentage of Net OPEB	University's Proportionate Share	State's Proportionate Share	Total Proportionate Share	University's Covered Payroll	University's Proportionate Share as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total OPEB Liability
June 30, 2017	0.36628143%	$ 9,006,820	$ 1,850,010	$ 10,856,830	$ 8,054,749	111.82%	25.10%

Schedule of Contributions

Measurement Date	Actuarily Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Acutal Contributions as a Percentage of Covered Payroll
June 30, 2017	$ 752,336	$ 752,336	$ -	$ 8,054,749	9.34%

Notes to Required Supplementary Information

For the Year Ended June 30, 2018

There are no factors that affect trends in the amounts reported, such as change of benefits terms or assumptions. Information, if necessary, can be obtained from the CPRB Comprehensive Annual Financial Report and the West Virginia Retiree Health Benefit Trust Fund Annual Financial Report.

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

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, 2018, 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 12, 2018. 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.

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Shepherd University

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

CliftonLarsonAllen LLP

Baltimore, Maryland
October 12, 2018