

Shepherd University

Financial Statements as of and for the Years Ended
June 30, 2021 and 2020, and Independent Auditors'
Reports



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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, 2021 and 2020, 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.

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

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

Opinions

In our opinion, based on our audits and the reports 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, 2021 and 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 – 12, the Schedule of Proportionate Share of Net Pension Liability and Contributions on page 79, and the Schedule of Proportionate Share on Net OPEB Liability and Contributions on page 80 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2021, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Baltimore, Maryland
October 13, 2021

Shepherd University

Management Discussion and Analysis

Fiscal Years 2021 and 2020

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. The University and Shepherd Foundation will be celebrating the 150th anniversary this year with events that appropriately conform to COVID restrictions. These will be announced in local media and featured on both Shepherd and the Foundation’s websites.

The University 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, Master of Arts in College Student Development and Administration, Master of Arts in Appalachian Studies, and the Master of Science in Data Analytics and Information Systems, as well as the Doctoral program in Nursing Practice. Shepherd continues to develop and launch a completely online program. The Masters of Arts in Curriculum and Instruction and the Masters of Business Administration are the first of several fully online graduate programs to be offered. The undergraduate RN to BSN program is scheduled to begin in this new format beginning in the fall semester, 2022. Shepherd is accredited by The Higher Learning Commission of the North Central Association (HLC). The HLC has reviewed our proposal to initiate this program and has approved this method of delivery as early as spring, 2021.

Overview of the Financial Statements and Financial Analysis

This discussion will emphasize significant changes reflected in the FY2021 data compared to the financial statements presented for FY2020. There are three financial statements presented: Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; and 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.

Discussion is included throughout this report related to the ongoing challenges presented by the COVID-19 pandemic. The University is making a concerted effort to return to a more traditional campus model in fall, 2021. However, changes will be occurring in campus presence, including residence hall occupancy, that impact the financial results for Fiscal Year 2021, as well as moving into Fiscal Year 2022. Many challenges have been and will continue to be addressed as the University proceeds in the most responsible way to protect our students, staff and faculty, while providing the most reasonable and safe learning environment on and off of our campus.

The initiation of the online learning degree program will assist those in the workforce who find it difficult to attend onsite classes, including adult learners with full-time employment unable to attend traditional classes. Further, this is an opportunity to offer degree programs to students located both near and far and will enhance our revenue beginning in Fiscal Year 2021.

Statement of Net Position

The Statement of Net Position presents end-of-year data concerning assets (current and noncurrent), deferred outflows of resources, liabilities (current and noncurrent), deferred inflows 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, 2021 and 2020. The difference between current and noncurrent assets and liabilities is discussed in the footnotes to the financial statements.

From the data presented, readers of the Statement of Net Position can determine the assets available to continue the operations of the institution. They may further 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 carryover 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 | | |
|---|------------------|------------------|------------------|
| | 2021 | 2020 | 2019 |
| Assets: | | | |
| Cash | \$ 10,390 | \$ 10,018 | \$ 9,575 |
| Other Current Assets | 2,040 | 1,847 | 1,282 |
| Noncurrent Assets | <u>104,838</u> | <u>109,360</u> | <u>113,220</u> |
| Total Assets | 117,268 | 121,225 | 124,077 |
| Total Deferred Outflows of Resources | <u>991</u> | <u>1,023</u> | <u>1,180</u> |
| Total Assets and Deferred Outflows of Resources | <u>118,259</u> | <u>122,248</u> | <u>125,257</u> |
| Liabilities: | | | |
| Current Liabilities | 7,961 | 7,622 | 8,050 |
| Noncurrent Liabilities | <u>34,977</u> | <u>41,786</u> | <u>44,556</u> |
| Total Liabilities | 42,938 | 49,408 | 52,606 |
| Total Deferred Inflows of Resources | <u>5,390</u> | <u>3,088</u> | <u>2,277</u> |
| Total Liabilities and Deferred Inflows of Resources | <u>48,328</u> | <u>52,496</u> | <u>54,883</u> |
| Net Position: | | | |
| Net Investment in Capital Assets | 70,132 | 72,350 | 75,219 |
| Restricted - Expendable | (70) | 469 | 835 |
| Unrestricted | <u>(132)</u> | <u>(3,068)</u> | <u>(5,680)</u> |
| Total Net Position | <u>\$ 69,930</u> | <u>\$ 69,751</u> | <u>\$ 70,374</u> |

Assets

Total Assets for FY2021 decreased approximately 3.3 percent to \$117 million compared to \$121 million for FY2020 and compared to a decline of 2.3 percent, \$2.9 million from FY2019 to FY2020. However, within Current Assets, Cash increased by \$371,926 from the previous year. This continues the trend from FY2019 to FY2020 with the increase in Cash of \$443,154. This is the second consecutive fiscal year since FY2015 that there has been an increase in cash, when comparing year-over-year. The decline in student enrollments is partially due to the COVID-19 pandemic, resulting in some students delaying the start of their college education due to the many uncertainties and overarching life-changing challenges. The University did not increase tuition and fees for in-state or out-of-state students for fiscal year 2021 in consideration of the many financial constraints caused by the pandemic, such as businesses being forced to close temporarily as well as other essential cost of living impairments. Further, the one-time increase in the State Appropriation of \$190,257 provides a small additional increase in Other Current Assets for FY2021.

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 many noncritical large capital projects in FY2021 that would have offset accumulated depreciation. However, one project commencing in FY2020, the Knutti Hall foundation stabilization, was completed in FY2021. Other capital projects beginning in FY2021 included:

1. The conversion of traditional telephone services to VOIP (Voice Over Internet Protocol) which is expected to complete in FY2022
2. Replacement of boilers in the Byrd/Science building with more energy efficient propane boilers which began in FY2021 and will complete in FY2022. This is the first phase of a larger overall project to further replace HVAC equipment to complete the energy savings project.
3. Enhancements to the dining area in the Rams Den, which is funded by our dining partner, Aramark, will provide a wider variety of options for our students at this primary location.

Non-current assets decreased by \$4.5 million compared to FY2020, continuing the trend from FY2019 to FY2020 which declined \$3.9 million.

The net result of FY2021 activities resulted in a \$4.0 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 is a decrease in deferred outflows of \$32,030 from FY2020 to FY2021. In FY2021, the University had combined deferred outflows of resources related to pensions and other postemployment benefits of \$990,990, as required by both GASB 68 and GASB 75. These deferred outflows of resources directly relate 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, Bonds Payable and Other Post-Employment Benefits (OPEB) liability. Total Liabilities decreased 13.1 percent, \$6.5 million from FY2020 to FY2021. This is comparison to the 6.1 percent decrease, \$3.2 million from FY2019 to FY2020.

Significant changes include:

- A decrease in Accounts Payable of \$222,412 from FY2020 to FY2021, reflecting the processing and payment decrease in many expenses related to the COVID-19 pandemic, which created many segments of University operation to be conducted remotely, such as student classrooms, reduction in residence hall occupation, limited operation of the Wellness Center and some administrative functions.
- An increase in Accrued Liabilities of \$111,480 at fiscal year-end.
- A significant decrease in the OPEB liability of \$4,635,383 is due to GASB 75 actuarial calculations provided by the State. The State has established the West Virginia Retirees Health Benefit Trust Fund which will be used to reduce the liability over time.

Deferred Inflows of Resources:

Deferred Inflows of Resources are the acquisition of net position by the University that are applicable to future years. In FY2021, the University had deferred inflows of resources related to pensions and other postemployment benefits of \$5,390,277. This is a direct result of the ongoing actuarial calculations provided by the State as they pertain to GASB Statement No. 68 and to GASB Statement No. 75. The amount of increase in FY2021 of \$2,302,207 represents a 74.6 percent increase, as compared to FY2020.

Net Position:

From FY2020 to FY2021 Total Net Position increased by \$178,295. Unrestricted net position overall increased significantly by \$2.9 million as a continued result of GASB No. 68 and GASB No. 75 requirements to record the unfunded pension liabilities and the other post-employment benefit liabilities based on actuarial calculations provided by the State. In addition, the Total Net Position increase resulted from the continued reduction in operating expenses and an increase in the non-operating revenues, both of which offset the reduction in operating revenues. The significant federal Higher Education Emergency Relief Fund (HEERF) aid enabled the University to recover a portion of the lost revenue due to COVID-19, while providing students with cash payments, as directed by the U.S. Department of Education. The FY2021 increase in Net Position reflects the first positive result since FY2014, which was \$127,372. This is a significant improvement over FY2020 and the previous 5 years, all reflecting net losses.

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.

Operating revenues are received to provide 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. Similarly, federal HEERF grants are recorded as non-operating, being a direct payment to the University without the federal government receiving commensurate goods and services for those revenues.

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

(In thousands)

| | Years Ended June 30, | | |
|-------------------------------------|----------------------|------------------|------------------|
| | 2021 | 2020 | 2019 |
| Operating Revenues | \$ 29,022 | \$ 32,310 | \$ 34,784 |
| Operating Expenses | <u>51,754</u> | <u>54,033</u> | <u>56,089</u> |
| Operating Loss | (22,732) | (21,723) | (21,305) |
| Nonoperating Revenues - Net | 22,910 | 21,056 | 16,683 |
| Capital Grants | <u>-</u> | <u>44</u> | <u>68</u> |
| | | | |
| Increase (Decrease) in Net Position | 178 | (623) | (4,554) |
| | | | |
| Net Position - Beginning of Year | <u>69,752</u> | <u>70,375</u> | <u>74,929</u> |
| Net Position - End of Year | <u>\$ 69,930</u> | <u>\$ 69,752</u> | <u>\$ 70,375</u> |

Operating Revenues:

Operating Revenues consist of student tuition and fees, contracts and grants, interest on student loans receivable, sales and services of educational activities, auxiliary enterprise revenue and other operating revenues. Total operating revenues for FY2021 decreased by \$3.3 million or 10.2 percent compared to the 7.1 percent, \$2.5 million decline from FY2019 to FY2020.

Student tuition and fees revenue decreased by \$1.4 million in FY2021. The rates remained the same as FY2020, with no additional increase for in-state or out-of-state students, as previously noted due to the financial challenges facing students and their families related to COVID-19. Overall, student tuition and fees as a percentage of total operating revenues increased from 49.9 percent to 50.6 percent.

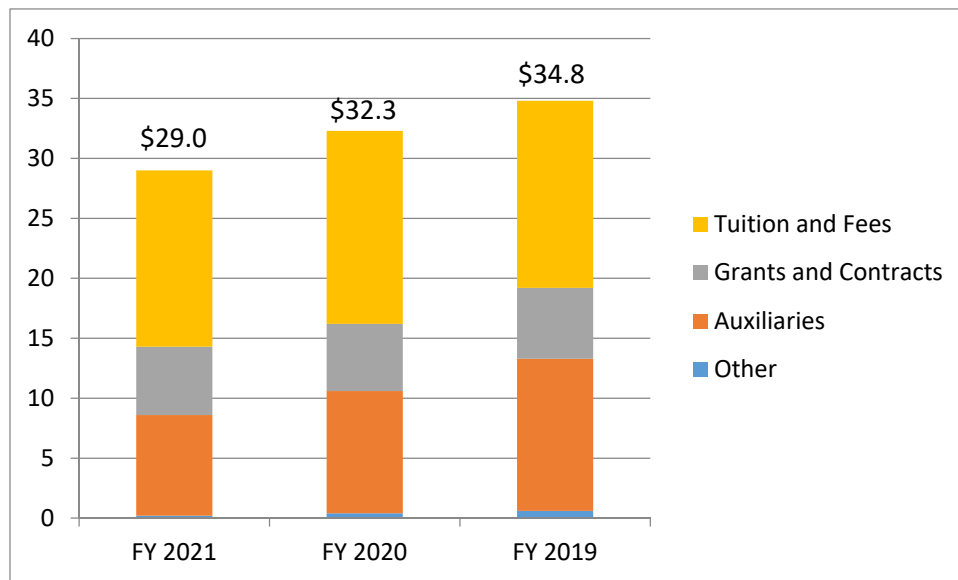
Grants and contracts comprise approximately 19.8 percent of the operating revenues and total \$5.7 million in FY2021. This is a \$121,087 increase from FY2020, which is a result of an increase in federal grants of \$383,297, a decrease in state grants of \$205,507 and a decrease in private grants of \$56,703.

Auxiliary Enterprise Revenue, which includes resources generated by the operation of the bookstore, wellness center, dining services and residence halls, experienced a decrease of \$1,817,309 or 17.8 percent in FY2021. The decrease is largely attributed to the continued impact of the COVID-19 pandemic, which resulted in the de-densification of campus residence halls, further impacting dining services as many students continued with the distance learning delivery for their FY2021 courses. Wellness Center closures also impact this reduction in revenue, as well as events and revenue-producing activities that would have occurred during the spring semester and carrying forward through the month of June. The HEERF grants provided funding, which continued to offset the lost revenue for room and board that was related to the limited capacity for residence halls.

The decline in Auxiliary Enterprise revenue is also partially offset by a comparative decrease in Auxiliary Enterprise expenses for FY2021, as noted in that section of this analysis.

Operating Revenues – FY 2021-2019

(In millions)



Operating Expenses:

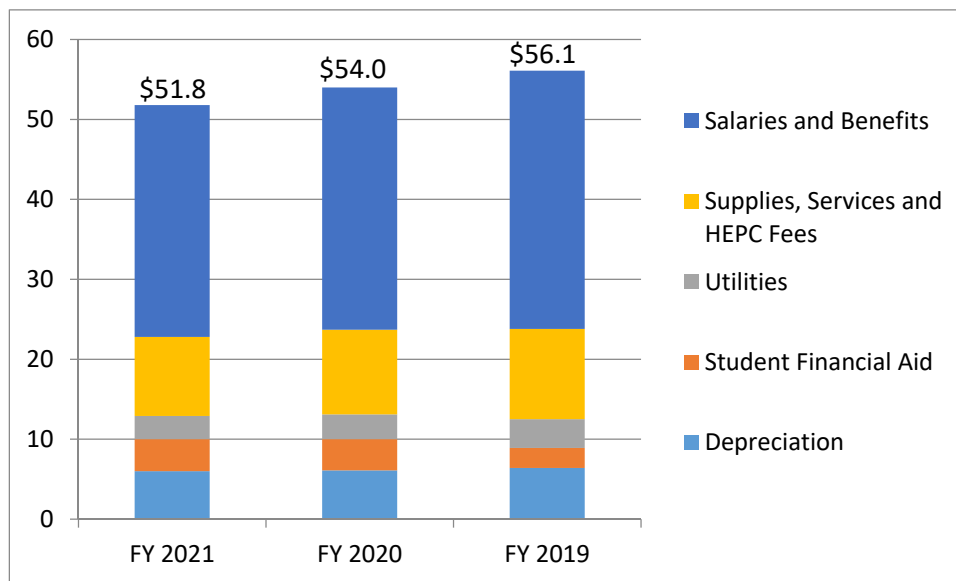
Overall, FY2021 operating expenses decreased substantially, when compared to FY2020, by \$2.28 million. This decline results primarily from the combination of a targeted approach to reducing all operating expenses, including payroll and other operating expenses, as directed by the Board of Governors Task Force. It is further attributed to savings in expenses such as travel, professional development and hospitality related to the COVID-19 pandemic impact.

Salaries and wages plus benefits represent 55.9 percent of the total FY2021 operating expenses, a 0.4 percent decrease over FY2020. Employee compensation, including benefits, decreased by \$1,473,635 compared to FY2020. This was the result of the compliance with GASB 75 related to Other Post-Employment Benefits (OPEB) and changes made to the assumptions in the actuarial reports. Additional Operating Expense reductions include decreases in Depreciation expense, (\$87,530), Supplies and other services, (\$647,281) and Utilities, \$177,327, year-over-year. Student Financial Aid increased \$106,792.

The University continues to implement University-wide cost containment strategies to offset cost increases for FY2021. The continuation of the COVID-19 pandemic challenges requires focus and constant alignment to adjust and balance the need for additional cleaning, sanitizing supplies, protective clothing including gloves, masks, face shields, gowns and equipment, needed to maintain a healthy environment for our students and employees, while striving to achieve savings in all areas possible to offset these added expenses.

Operating Expenses – FY 2021-2019

(In millions)



Non-operating Revenues (Expenses):

Net Nonoperating Revenues significantly increased by \$1.854 million, 8.8 percent in FY2021. This is significantly due to the increase of HEERF grants of \$2.683 million received in FY2021, the state appropriations increase of \$190,257, offset by reductions in Federal Pell grants of \$373,085 and the decrease in Gifts of \$329,368.

Interest Expense decreased \$68,848 (5.2%) due to the principal reductions in bonds and leases. Gifts decreased \$329,368 (15.1%) and PELL decreased \$373,085 (8.0%).

The net result of operating and non-operating revenues and expenses was a gain of \$178,295.

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 \$30.9 million and payments to suppliers of \$9.5 million. Net cash used for operating activities increased by \$563,836 million from FY2020 to FY2021. The reduction of Auxiliary Enterprise charges of \$1.885 million is due to modified operations in all auxiliary activities including, residence hall occupation, dining services, bookstore operations, and Wellness Center modified operations, all related to COVID-19. Fluctuations and risks in increasing infection rates among the University population of students and employees were closely monitored and operational decisions were made in the interest of safety to all campus students, faculty and staff. The increase in payments for scholarships and fellowships of \$106,792 is directly related to the increased financial need for students to remain enrolled in their classes and degree programs.

Capital financing activities represent funds that were used to purchase or add value to capital assets. Even though as in recent years, the University did not undertake any substantial capital projects for FY2021, there was one project for foundation stabilization for Knutti Hall. This project began in FY2020 and was completed in FY2021. During FY2021, planning for the East Loop development project began. This property encompasses the site of Kenamond Hall, Turner Hall and the Dining Hall. Additionally, Gardiner Hall may become part of the project, if determined to be feasible at some future point. Glenmark, LLC was the successful bidder for the East Campus Loop project. A global agreement was signed by both parties and a Phase 1 Development Agreement has been in the edit stage for several months. The cost of construction has risen considerably due to COVID and the availability of building supplies continues to be of concern to all parties. Discussions continue regarding the planning and timing of next steps.

Overall cash and cash equivalents at FY2021 year-end increased \$371,926 as compared to the FY2020 increase of \$443,154. This was the second consecutive fiscal year since FY2015 that ending cash increased. COVID-19 will challenge the progress made in significant reduction of the deficit. However, leadership is closely monitoring all financial activity to act quickly and appropriately to minimize any negative impact from this pandemic or other unanticipated changes in the economic climate for FY2021 and forward.

Condensed Schedules of Cash Flows

(In thousands)

| | Years Ended June 30, | | |
|---|----------------------|------------------|-----------------|
| | 2021 | 2020 | 2019 |
| Net cash (used in) provided by: | | | |
| Operating activities | \$ (17,933) | \$ (17,369) | \$ (13,926) |
| Noncapital financing activities | 23,805 | 21,827 | 17,394 |
| Capital and related financing activities | (5,515) | (4,180) | (5,139) |
| Investing activities | 15 | 164 | 227 |
| Increase (decrease) in Cash | 372 | 442 | (1,444) |
| Cash and cash equivalents - beginning of year | 10,018 | 9,575 | 11,019 |
| Cash and cash equivalents - end of year | <u>\$ 10,390</u> | <u>\$ 10,018</u> | <u>\$ 9,575</u> |

Economic Outlook

Shepherd's financial strength and capabilities continue to be challenged by declining enrollment that is evidenced throughout the country. The continuing decline in enrollment in FY2021, with the rate of decline increasing by 2%, compared to the previous fiscal year. This is an indicator that additional efforts are needed to stabilize and grow enrollment. However, the COVID-19 factor has created a new challenge to reaching the enrollment growth that is both desirable and necessary. Shepherd will strive to focus on dual strategic collaborative efforts to both enhance enrollment through recruitment of both in-state and out-of-state students and to retain current students. During FY2020, the Board of Governors Task Force provided support with focused meetings, resulting in financial decisions in all areas to reduce excessive spending and control the cost of personnel and operational expenses. This positive result is evidenced in the year-end results reported herein for FY2021.

Further, preparations and approvals to initiate a completely online degree program continued into FY2021, beginning with selected graduate programs. Upon receiving approval from the Higher Learning Commission (HLC), a budget was established and plans for a **Fall, 2021** launch are underway. This new revenue source will enhance our traditional tuition and fee revenues in addition to providing a course of study in demand primarily by adult learners seeking to advance their careers or turn to an entirely different career path with no requirement for onsite, customary class schedules.

Shepherd University received a one-time increase in the State appropriation in FY2021 in the amount of \$190,257. This amount is not included in FY2022 and there is an additional 1.5% reduction in the FY2021 base, causing the variance between FY2021 and FY2022 to be \$380,314. This reduction to Shepherd of 1.5% is minimal, but it is a step backward from providing adequate State support to further the financial stability that is critical to Shepherd, as well as all state-supported higher education institutions.

The University Bookstore operated by Follett assumed ownership and operations of the bookstore in April, 2018 and continues to provide a broader scope of products for fulfillment of academic books and supplies with competitive pricing. Shepherd receives monthly rental payments from Follett for the space occupied. In addition, commissions paid to the University by Follett will be utilized to fund student scholarships.

Aramark began to serve as the dining option for the campus beginning in Fall, FY2020. Dining options for students are available at various locations across campus. Students did not experience changes in the meal plans and rates for FY2021. 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 Aramark throughout the fall and spring academic semesters. Shepherd also receives commission revenue for campus catering services from Aramark.

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 for operations and to keep Shepherd competitive in our market area. Significant marketing efforts are being developed to expand focus on a specific population in the surrounding counties in Virginia, Maryland and Pennsylvania. 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, both undergraduate and graduate.

The University staff and Board of Governors is focused on financial stability in conjunction with improving the value to our students for a quality educational experience. Development and implementation of new strategies and initiatives to sustain programs and activities, focusing on our core strengths, planning for future challenges and providing a combination of quality and growth will enhance 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 / Administration at (304) 876-5490, or by mail at:

Shepherd University
Pamela W. Stevens
Vice President for Finance / Administration
P. O. Box 5000
Shepherdstown, WV 25443

SHEPHERD UNIVERSITY

STATEMENTS OF NET POSITION AS OF JUNE 30, 2021 AND 2020

| | 2021 | 2020 |
|--|-----------------------|-----------------------|
| ASSETS AND DEFERRED OUTFLOWS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 10,389,857 | \$ 10,017,931 |
| Accounts receivable — net | 1,809,570 | 1,748,583 |
| Due from Primary Government | 190,257 | - |
| Due from Commission | 604 | 22,168 |
| Prepaid expense | 3,936 | 40,100 |
| Loans to students — current portion | 35,100 | 35,503 |
| Inventories | 734 | 886 |
| Total current assets | <u>12,430,058</u> | <u>11,865,171</u> |
| NONCURRENT ASSETS: | | |
| Other receivable | 132,366 | 164,223 |
| Loans to students — net of allowance of \$113,024 and \$84,160 in 2021 and 2020, respectively | 151,482 | 217,856 |
| Capital assets — net | <u>104,553,751</u> | <u>108,978,181</u> |
| Total noncurrent assets | <u>104,837,599</u> | <u>109,360,260</u> |
| TOTAL ASSETS | <u>117,267,657</u> | <u>121,225,431</u> |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES: | | |
| Deferred outflows related to pensions and OPEB | <u>990,990</u> | <u>1,023,020</u> |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | <u>\$ 118,258,647</u> | <u>\$ 122,248,451</u> |

(Continued)

SHEPHERD UNIVERSITY

STATEMENTS OF NET POSITION AS OF JUNE 30, 2021 AND 2020

| | 2021 | 2020 |
|--|-----------------------|-----------------------|
| LIABILITIES, DEFERRED INFLOWS AND NET POSITION | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 716,763 | \$ 939,175 |
| Accrued liabilities | 2,352,144 | 2,240,664 |
| Due to Commission | - | 5,726 |
| Compensated absences — current portion | 737,235 | 774,089 |
| Unearned revenues | 1,816,786 | 1,263,243 |
| Deposits held in custody for others | 165,756 | 195,256 |
| Bonds payable — current portion | 1,862,349 | 1,796,643 |
| Note payable — current portion | 75,000 | 150,000 |
| Note payable — due to Commission | 175,000 | 175,000 |
| Capital leases payable — current portion | 60,276 | 82,605 |
| Total current liabilities | <u>7,961,309</u> | <u>7,622,401</u> |
| NONCURRENT LIABILITIES: | | |
| Advances from federal sponsors | 298,623 | 338,072 |
| Compensated absences | 564,892 | 519,086 |
| Other postemployment benefits liability | 1,618,601 | 6,253,984 |
| Net pension liability | 245,983 | 251,342 |
| Bonds payable, net of current portion | 31,125,878 | 32,990,432 |
| Notes payable, net of current portion | 850,000 | 1,100,000 |
| Capital leases payable, net of current portion | 272,793 | 333,068 |
| Total noncurrent liabilities | <u>34,976,770</u> | <u>41,785,984</u> |
| TOTAL LIABILITIES | <u>42,938,079</u> | <u>49,408,385</u> |
| DEFERRED INFLOWS OF RESOURCES: | | |
| Deferred inflows related to pensions and OPEB | <u>5,390,277</u> | <u>3,088,070</u> |
| NET POSITION: | | |
| Net investment in capital assets | <u>70,132,455</u> | <u>72,350,432</u> |
| Restricted — expendable: | | |
| Loans | (36,916) | (2,492) |
| Other restricted | <u>(33,026)</u> | <u>471,941</u> |
| Total restricted - expendable | <u>(69,942)</u> | <u>469,449</u> |
| Unrestricted | <u>(132,222)</u> | <u>(3,067,885)</u> |
| TOTAL NET POSITION | <u>69,930,291</u> | <u>69,751,996</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | <u>\$ 118,258,647</u> | <u>\$ 122,248,451</u> |

See notes to financial statements.

(Concluded)

SHEPHERD UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

| | 2021 | 2020 |
|--|------------------------|------------------------|
| OPERATING REVENUES: | | |
| Student tuition and fees — net of scholarship allowance of \$11,008,917 and \$10,959,535 in 2021 and 2020, respectively | \$ 14,679,216 | \$ 16,108,337 |
| Contracts and grants: | | |
| Federal | 2,059,732 | 1,676,435 |
| State | 3,570,655 | 3,776,162 |
| Private | 101,531 | 158,234 |
| Interest on student loans receivable | 7,564 | 11,294 |
| Sales and services of educational activities | 216 | 21,405 |
| Auxiliary enterprise revenue — net of scholarship allowance of \$744,457 and \$737,404 in 2021 and 2020, respectively | 8,376,074 | 10,193,383 |
| Other operating revenues | <u>227,133</u> | <u>364,984</u> |
| Total operating revenues | <u>29,022,121</u> | <u>32,310,234</u> |
| OPERATING EXPENSES: | | |
| Salaries and wages | 25,392,155 | 25,304,290 |
| Benefits | 3,546,943 | 5,108,443 |
| Supplies and other services | 9,920,871 | 10,568,152 |
| Utilities | 2,876,018 | 3,053,345 |
| Student financial aid — scholarships and fellowships | 3,992,170 | 3,885,378 |
| Depreciation | <u>6,025,951</u> | <u>6,113,481</u> |
| Total operating expenses | <u>51,754,108</u> | <u>54,033,089</u> |
| OPERATING LOSS | <u>\$ (22,731,987)</u> | <u>\$ (21,722,855)</u> |

(Continued)

SHEPHERD UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

| | 2021 | 2020 |
|--|-----------------------------|-----------------------------|
| NONOPERATING REVENUES (EXPENSES): | | |
| State appropriations | \$ 12,874,086 | \$ 12,683,829 |
| Payments on behalf of the University | 213,616 | 452,337 |
| Federal Pell grants | 4,282,423 | 4,655,508 |
| Federal HEERF Grants | 4,977,081 | 2,294,000 |
| Investment income | 15,268 | 164,343 |
| Interest expense | (1,267,139) | (1,335,987) |
| Fees assessed by the Commission for debt service | (16,321) | (16,939) |
| Gifts | 1,848,005 | 2,177,373 |
| Loss on disposal of equipment | <u>(16,736)</u> | <u>(18,328)</u> |
| Net nonoperating revenues | <u>22,910,283</u> | <u>21,056,136</u> |
| Capital grants | <u>-</u> | <u>44,137</u> |
| INCREASE (DECREASE) IN NET POSITION | 178,295 | (622,582) |
| NET POSITION — Beginning of year | <u>69,751,996</u> | <u>70,374,578</u> |
| NET POSITION — End of year | <u><u>\$ 69,930,291</u></u> | <u><u>\$ 69,751,996</u></u> |

See notes to financial statements.

(Concluded)

SHEPHERD UNIVERSITY

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

| | 2021 | 2020 |
|---|-----------------------------|-----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Student tuition and fees | \$ 15,080,995 | \$ 15,662,078 |
| Contracts and grants | 5,572,733 | 5,822,648 |
| Payments to and on behalf of employees | (30,886,777) | (31,536,545) |
| Payments to suppliers | (9,465,476) | (10,914,057) |
| Payments to utilities | (2,890,213) | (3,211,574) |
| Payments for scholarships and fellowships | (3,992,170) | (3,885,378) |
| Loans issued to students | (3,000) | - |
| Collection of loans to students | 77,341 | 75,715 |
| Sales and service of educational activities | 216 | 21,405 |
| Auxiliary enterprise charges | 8,346,573 | 10,231,915 |
| Other receipts — net | 227,133 | 364,984 |
| Net cash used in operating activities | <u>(17,932,645)</u> | <u>(17,368,809)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | |
| State appropriations | 12,683,829 | 12,683,829 |
| Federal Pell grants | 4,282,423 | 4,655,508 |
| Federal HEERF Grants | 4,977,081 | 2,294,000 |
| Gifts | 1,848,005 | 2,177,373 |
| Federal student loan program — direct lending receipts | 11,815,060 | 14,358,773 |
| Federal student loan program — direct lending payments | <u>(11,802,004)</u> | <u>(14,342,124)</u> |
| Net cash provided by noncapital financing activities | <u>23,804,394</u> | <u>21,827,359</u> |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES: | | |
| Capital note and bond proceeds from the State | - | 1,244,137 |
| Interest paid on capital debt and leases | (1,267,139) | (1,335,987) |
| Purchases of capital assets | (2,027,384) | (1,981,800) |
| Principal paid on capital debt and leases | (2,204,247) | (2,089,150) |
| Fees assessed by the Commission | <u>(16,321)</u> | <u>(16,939)</u> |
| Net cash used in capital financing activities | <u>(5,515,091)</u> | <u>(4,179,739)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Interest on investments | <u>15,268</u> | <u>164,343</u> |
| Net cash provided by investing activities | <u>15,268</u> | <u>164,343</u> |
| INCREASE IN CASH AND CASH EQUIVALENTS | 371,926 | 443,154 |
| CASH AND CASH EQUIVALENTS — Beginning of year | <u>10,017,931</u> | <u>9,574,777</u> |
| CASH AND CASH EQUIVALENTS — End of year | <u>\$ 10,389,857</u> | <u>\$ 10,017,931</u> |

(Continued)

SHEPHERD UNIVERSITY

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

| | 2021 | 2020 |
|--|------------------------|------------------------|
| RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES: | | |
| Operating loss | \$ (22,731,987) | \$ (21,722,855) |
| Adjustments to reconcile net operating loss to net cash used in operating activities: | | |
| Depreciation expense | 6,025,951 | 6,113,481 |
| Net accretion of premiums/discounts on bonds payable | (2,204) | (2,204) |
| Effect of changes in operating assets, deferred outflows, liabilities and deferred inflows: | | |
| Accounts receivables — net | (74,045) | (534,803) |
| Other receivable | 31,856 | 35,286 |
| Prepaid expense | 36,164 | (40,100) |
| Loans to students — net | 66,777 | 64,421 |
| Due from the Commission | 21,564 | (6,790) |
| Inventories | 152 | 182 |
| Deferred outflows | (22,756) | 157,056 |
| Accounts payable | 186,716 | (163,487) |
| Accrued liabilities | 111,480 | (528,389) |
| Compensated absences | 8,952 | (59,474) |
| Other postemployment benefits liability | (4,635,383) | (2,001,806) |
| Net pension liability | (5,359) | 12,739 |
| Due to other State agencies | (5,726) | 5,726 |
| Unearned revenue | 553,543 | (296,409) |
| Deposits held in custody for others | (29,500) | 38,531 |
| Advances from federal sponsors | (39,449) | 296,280 |
| Deferred inflows | <u>2,570,609</u> | <u>1,263,806</u> |
| NET CASH USED IN OPERATING ACTIVITIES | <u>\$ (17,932,645)</u> | <u>\$ (17,368,809)</u> |
| NONCASH TRANSACTIONS | | |
| Property additions in accounts payable | \$ 67,011 | \$ 476,139 |
| See notes to financial statements. | | (Concluded) |

SHEPHERD UNIVERSITY

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2021 AND 2020

| | 2021 | 2020 |
|---|----------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 4,222,505 | \$ 3,625,092 |
| Pledges receivable, net of present value adjustment | 1,275,317 | 2,174,919 |
| Accounts receivable | 23,481 | 28,144 |
| Due from Shepherd University | 694 | 881 |
| Accrued interest receivable | 30,638 | 32,152 |
| Prepaid expenses | 27,621 | 21,327 |
| Investments | 34,809,456 | 26,965,776 |
| Interest in life estate | 425,812 | 406,461 |
| Property and equipment, net | <u>18,335,734</u> | <u>19,044,111</u> |
| TOTAL ASSETS | <u>\$ 59,151,258</u> | <u>\$ 52,298,863</u> |
| LIABILITIES | | |
| Accounts payable | \$ 2,632 | \$ 14,212 |
| Due to Shepherd University | 102,736 | 338,391 |
| Accrued interest | - | 18,333 |
| Custodial liabilities | 1,170,776 | 952,962 |
| Gift annuities payable | 73,277 | 81,646 |
| Loans payable, net | <u>20,982,364</u> | <u>21,110,949</u> |
| TOTAL LIABILITIES | <u>22,331,785</u> | <u>22,516,493</u> |
| NET ASSETS | | |
| Net assets without donor restriction | | |
| Undesignated (deficit) | (3,453,406) | (2,834,798) |
| Designated | 132,043 | 83,923 |
| Net assets with donor restriction | | |
| Restricted for a specific purpose | 16,296,534 | 9,192,792 |
| Restricted in perpetuity | <u>23,844,302</u> | <u>23,340,453</u> |
| TOTAL NET ASSETS | <u>36,819,473</u> | <u>29,782,370</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 59,151,258</u> | <u>\$ 52,298,863</u> |

See notes to financial statements.

SHEPHERD UNIVERSITY

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION CONSOLIDATED STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

| | 2021 | 2020 |
|---|----------------------|----------------------|
| CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS | | |
| SUPPORT AND REVENUE | | |
| Potomac Place rental income, net of waivers | \$ 1,330,847 | \$ 1,473,544 |
| Other revenue | 25,351 | 95,074 |
| Net investment return | 619 | 1,305 |
| Transfers for SUF management fees earned | 758,592 | 34,224 |
| Other transfers | (63,839) | (77,676) |
| Net assets released from restrictions | <u>1,725,839</u> | <u>2,585,399</u> |
| Total revenue and other support | <u>3,777,409</u> | <u>4,111,870</u> |
| EXPENSES | | |
| Program expenses | 3,746,527 | 4,521,343 |
| General and administrative: | <u>601,370</u> | <u>575,526</u> |
| Total expenses | <u>4,347,897</u> | <u>5,096,869</u> |
| Change in net assets without donor restrictions | <u>(570,488)</u> | <u>(984,999)</u> |
| CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS | | |
| SUPPORT AND REVENUE | | |
| Cash contributions | 1,727,858 | 3,791,880 |
| Stock contributions | 380,618 | 158,369 |
| Other non-cash contributions | 137,296 | 21,883 |
| Other revenue | 47,522 | 16,245 |
| Net investment return | 7,734,889 | 147,232 |
| Transfers for SUF management fees earned | (758,592) | (34,224) |
| Other transfers | 63,839 | 77,676 |
| Net assets released from restrictions | <u>(1,725,839)</u> | <u>(2,585,399)</u> |
| Change in net assets with donor restrictions | <u>7,607,591</u> | <u>1,593,662</u> |
| INCREASE IN NET ASSETS | 7,037,103 | 608,663 |
| NET ASSETS, BEGINNING OF YEAR | <u>29,782,370</u> | <u>29,173,707</u> |
| NET ASSETS, END OF YEAR | <u>\$ 36,819,473</u> | <u>\$ 29,782,370</u> |

See notes to financial statements.

SHEPHERD UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

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 Tele computing (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, 2021 and 2020, in accordance with GASB as a benefit/burden relationship exists between the University and the Foundation. The Foundation is a private nonprofit organization that reports under FASB standards. As such, certain revenue recognition criteria and presentation features are different from

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's audited financial information as it is presented herein (see also Notes 15 and 21).

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, 2021 or 2020.

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

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

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

Cash and cash equivalents balances on deposit with the State of West Virginia Treasurer's Office (the "State Treasurer") are pooled by the State Treasurer with other available funds of the State for investment purposes by the West Virginia Board of Treasury Investments (BTI). These funds are transferred to the BTI and the BTI is directed by the State Treasurer to invest the funds in specific external investment pools in accordance with West Virginia Code, policies set by the BTI, and by

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

provisions of bond indentures and trust agreements, when applicable. Balances in the investment pools are recorded at fair value or amortized cost, which approximates fair value. Fair value is determined by a third-party pricing service based on asset portfolio pricing models and other sources in accordance with GASB. The BTI was established by the State Legislature and is subject to oversight by the State Legislature. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. The amounts on deposit are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying financial statements.

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

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

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

Noncurrent Cash, Cash Equivalents, and Investments — Cash, cash equivalents, and investments that are (1) externally restricted to make debt service payments and long-term loans to students, or to maintain sinking or reserve funds, (2) to purchase capital or other noncurrent assets or settle long-term liabilities, and (3) permanently restricted components of net position, are classified as noncurrent assets in the accompanying statements of net position. There were no noncurrent cash, cash equivalents and investments at June 30, 2021 or 2020.

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

Net Pension Liability — For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Other Postemployment Benefits (OPEB) — GASB provides standards for the measurement, recognition, and display of OPEB expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. During FY 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 (RHBT), 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>. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the RHBT and additions to/deductions from the RHBT's fiduciary net position have been determined on the same basis as they are reported by RHBT. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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, 2021 and 2020, the University had deferred outflows of resources related to pensions and OPEB of \$990,990 and \$1,023,020, respectively (see Notes 10 and 14).

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, 2021 and 2020, the University had deferred inflows of resources related to pensions and OPEB of \$5,390,277 and \$3,088,070, respectively (see Notes 10 and 14).

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For employees hired after 1988 or who were hired before 1988 but did not choose such coverage until after 1988 but before July 1, 2001, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired on July 1, 2001, or later will no longer receive sick leave credit toward insurance premiums when they retire. Additionally, all retirees have the option to purchase continued coverage regardless of their eligibility for premium credits. This liability is now provided for under the multiple employer cost-sharing plans approved by the State.

Certain faculty employees (generally those with less than a 12-month contract) earn a similar extended health or life insurance coverage retirement benefit based on years of service. Generally, 3 1/3 years of teaching service extend health insurance for one year of single coverage and five years extend health 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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, Higher Education Emergency Relief Funds (HEERF) grants, and investment income, and sale of capital assets (including natural resources).

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

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

Federal Financial Assistance Programs — The University makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students, through entities like the University. Direct student loan receivables are not included in the University's statements of net position, as the loans are repayable directly to the U.S. Department of Education. The University received and disbursed approximately \$12 million in FY21 and \$14 million in FY20 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, HEERF grants, 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 FY21 and FY20, the University received and disbursed \$6,048,763 and \$4,889,925, 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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

direct costs as the related costs are incurred. Recovery of related indirect costs is generally recorded at fixed rates negotiated for a period of one to five years.

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

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

Use of Estimates — The preparation of 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.

Recent Statements Issued by the Governmental Accounting Standards Board — The GASB has issued the following which will be effective in future years:

Statement No. 87, *Leases*, which is effective for fiscal years beginning after June 15, 2021. 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.

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of Construction Period*, which is effective for fiscal years beginning after December 15, 2020. 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.

Statement No. 91, *Conduit Debt Obligations*, which is effective for fiscal years beginning after December 15, 2021. Statement No. 91 requires issuers to disclose information about their conduit debt obligations, organized by type of commitment, including aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. The University has not yet determined the effect that the adoption of GASB No. 91 may have on its financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Statement No. 92, *Omnibus 2020*, which is effective for fiscal years beginning after June 15, 2021. Statement No. 92 enhances the comparability in accounting and financial reporting to improve the consistency of authoritative literature by addressing practice issues that have been identified in certain GASB Statements. The University has not yet determined the effect that the adoption of GASB No. 92 may have on its financial statements.

The University implemented GASB Statement No. 93, *Replacement of Interbank Offered Rates*, during the year ended June 30, 2021. There was no significant impact on its financial statements.

Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, which is effective for fiscal years beginning after June 15, 2022. Statement No. 94 addresses issues associated with the financial reporting of public-private and public-public partnerships. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. The University has not yet determined the effect that the adoption of GASB No. 94 may have on its financial statements.

Statement No. 96, *Subscription-Based Information Technology Arrangements*, which is effective for fiscal years beginning after June 15, 2022. Statement No. 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements for governments. The University has not yet determined the effect that the adoption of GASB No. 96 may have on its financial statements.

Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*, which is effective for fiscal years beginning after June 15, 2021. Statement No. 97 establishes consistency and comparability related to the reporting of fiduciary component units with no governing board. The University has not yet determined the effect that the adoption of GASB No. 97 may have on its financial statements.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents as of June 30, 2021 and 2020 was as follows:

| | <u>2021</u> | <u>2020</u> |
|-----------------|----------------------|----------------------|
| State Treasurer | \$ 9,793,793 | \$ 9,023,290 |
| Bank | <u>596,064</u> | <u>994,641</u> |
| | <u>\$ 10,389,857</u> | <u>\$ 10,017,931</u> |

Cash and cash equivalents with the State Treasurer included \$129,654 in FY21 and \$176,333 in FY20 of restricted cash for grants.

3. CASH AND CASH EQUIVALENTS (CONTINUED)

The combined carrying amount of cash in bank at June 30, 2021 and 2020 was \$596,064 and \$994,641 as compared with the combined bank balance of \$659,404 and \$1,037,201, 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, 2021 and 2020, the University was exposed to custodial credit risk of \$19,145 and \$388,622, respectively for amounts that are uninsured and uncollateralized.

Amounts with the State Treasurer as of June 30, 2021 and 2020, are comprised of two investment pools, the WV Money Market Pool and the WV Short Term Bond Pool, both of which are carried at amortized cost. There was \$2,019,825 in FY21 and \$922,503 in FY20 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:

| External Pool | 2021 | | 2020 | |
|--------------------|----------------|--------------|----------------|--------------|
| | Carrying Value | S & P Rating | Carrying Value | S & P Rating |
| WV Money Market | \$ 7,772,748 | AAAm | \$ 7,908,740 | AAAm |
| WV Short Term Bond | \$ 191,477 | Not Rated | \$ 192,047 | Not Rated |

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

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

| External Pool | 2021 | | 2020 | |
|-----------------|-----------------|------------|-----------------|------------|
| | Carrying Amount | WAM (days) | Carrying Amount | WAM (days) |
| WV Money Market | \$ 7,772,748 | 52 | \$ 7,908,740 | 44 |

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

| External Pool | 2021 | | 2020 | |
|--------------------|----------------|---------------------------|----------------|---------------------------|
| | Carrying Value | Effective Duration (days) | Carrying Value | Effective Duration (days) |
| WV Short Term Bond | \$ 191,477 | 638 | \$ 192,047 | 620 |

3. CASH AND CASH EQUIVALENTS (CONTINUED)

Other Investment Risks — Other investment risks include concentration of credit risk, custodial credit risk, and foreign currency risk. None of the BTI's Consolidated Fund's investment pools or accounts is exposed to these risks as described below.

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

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

Interest rate risk is the risk that changes in 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, 2021 and 2020, are as follows:

| | <u>2021</u> | <u>2020</u> |
|--|---------------------|---------------------|
| Student tuition and fees — net of allowance for doubtful accounts of \$782,372 and \$694,874 in 2021 and 2020, respectively | \$ 612,420 | \$ 479,583 |
| Grants and contracts receivable | 584,613 | 436,017 |
| Potomac Place Ground Rent and Management operations | 57,700 | 294,016 |
| Research Corporation - Due from Foundation | 338,001 | 349,442 |
| Other | 216,836 | 189,525 |
| | <u>\$ 1,809,570</u> | <u>\$ 1,748,583</u> |

5. CAPITAL ASSETS

Summary of capital assets transactions for the University as of June 30, 2021 and 2020, are as follows:

| | 2021 | | | |
|--|-----------------------|-----------------------|-------------------|-----------------------|
| | Beginning Balance | Additions | Reductions | Ending Balance |
| Capital assets not being depreciated: | | | | |
| Land | \$ 1,120,925 | \$ - | \$ - | \$ 1,120,925 |
| Construction in progress | <u>633,829</u> | <u>1,113,856</u> | <u>800,322</u> | <u>947,363</u> |
| Total capital assets not being depreciated | <u>1,754,754</u> | <u>1,113,856</u> | <u>800,322</u> | <u>2,068,288</u> |
| Capital assets being depreciated: | | | | |
| Land improvements | 5,739,990 | - | - | 5,739,990 |
| Land improvements - leased | 1,445,144 | - | - | 1,445,144 |
| Infrastructure | 14,775,653 | - | - | 14,775,653 |
| Buildings | 171,505,667 | 552,886 | - | 172,058,553 |
| Equipment | 17,395,569 | 705,981 | 268,955 | 17,832,595 |
| Library books | <u>4,284,595</u> | <u>46,115</u> | <u>-</u> | <u>4,330,710</u> |
| Total capital assets being depreciated | <u>215,146,618</u> | <u>1,304,982</u> | <u>268,955</u> | <u>216,182,645</u> |
| Less accumulated depreciation for: | | | | |
| Land improvements | 2,988,717 | 414,139 | - | 3,402,856 |
| Land improvements - leased | 512,752 | 96,343 | - | 609,095 |
| Infrastructure | 9,467,738 | 578,033 | - | 10,045,771 |
| Buildings | 77,614,301 | 4,010,984 | - | 81,625,285 |
| Equipment | 13,505,202 | 860,768 | 251,960 | 14,114,010 |
| Library books | <u>3,834,481</u> | <u>65,684</u> | <u>-</u> | <u>3,900,165</u> |
| Total accumulated depreciation | <u>107,923,191</u> | <u>6,025,951</u> | <u>251,960</u> | <u>113,697,182</u> |
| Capital assets being depreciated - net | <u>107,223,427</u> | <u>(4,720,969)</u> | <u>16,995</u> | <u>102,485,463</u> |
| Total Capital Assets | <u>\$ 108,978,181</u> | <u>\$ (3,607,113)</u> | <u>\$ 817,317</u> | <u>\$ 104,553,751</u> |

5. CAPITAL ASSETS (CONTINUED)

| | 2020 | | | |
|--|----------------------|----------------|------------|-------------------|
| | Beginning Balance | Additions | Reductions | Ending Balance |
| Capital assets not being depreciated: | | | | |
| Land | \$ 1,120,925 | \$ - | \$ - | \$ 1,120,925 |
| Construction in progress | 490,913 | 848,296 | 705,380 | 633,829 |
| Total capital assets not being depreciated | 1,611,838 | 848,296 | 705,380 | 1,754,754 |
| Capital assets being depreciated: | | | | |
| Land improvements | 5,738,440 | 1,550 | - | 5,739,990 |
| Land improvements - leased | 1,445,144 | - | - | 1,445,144 |
| Infrastructure | 14,775,653 | - | - | 14,775,653 |
| Buildings | 170,425,492 | 1,080,175 | - | 171,505,667 |
| Equipment | 16,482,237 | 1,087,238 | 173,906 | 17,395,569 |
| Library books | 4,219,617 | 64,978 | - | 4,284,595 |
| Total capital assets being depreciated | 213,086,583 | 2,233,941 | 173,906 | 215,146,618 |
| Less accumulated depreciation for: | | | | |
| Land improvements | 2,574,224 | 414,493 | - | 2,988,717 |
| Land improvements - leased | 416,409 | 96,343 | - | 512,752 |
| Infrastructure | 8,886,147 | 581,591 | - | 9,467,738 |
| Buildings | 73,606,747 | 4,007,554 | - | 77,614,301 |
| Equipment | 12,712,599 | 942,781 | 150,178 | 13,505,202 |
| Library books | 3,763,762 | 70,719 | - | 3,834,481 |
| Total accumulated depreciation | 101,959,888 | 6,113,481 | 150,178 | 107,923,191 |
| Capital assets being depreciated - net | 111,126,695 | (3,879,540) | 23,728 | 107,223,427 |
| Total Capital Assets | \$ 112,738,533 | \$ (3,031,244) | \$ 729,108 | \$ 108,978,181 |

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, 2021, 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, 2021 and 2020 are as follows:

| | 2021 | | | | |
|---|-------------------|-----------|--------------|----------------|-----------------|
| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
| Bonds, note and capital leases: | | | | | |
| Bonds payable | \$ 34,757,505 | \$ - | \$ 1,796,644 | \$ 32,960,861 | \$ 1,862,349 |
| Bond premium/discount | 29,570 | - | 2,204 | 27,366 | - |
| Note payable | 1,425,000 | - | 325,000 | 1,100,000 | 250,000 |
| Capital lease obligations | 415,673 | - | 82,604 | 333,069 | 60,276 |
| Total bonds, note and capital leases | 36,627,748 | - | 2,206,452 | 34,421,296 | 2,172,625 |
| Other long-term liabilities: | | | | | |
| Advances from federal sponsors | 338,072 | 5,851 | 45,300 | 298,623 | - |
| Compensated absences | 1,293,175 | 8,952 | | 1,302,127 | 737,235 |
| Net pension liability | 251,342 | - | 5,359 | 245,983 | - |
| Other postemployment benefits liability | 6,253,984 | - | 4,635,383 | 1,618,601 | - |
| Total other long-term liabilities | 8,136,573 | 14,803 | 4,686,042 | 3,465,334 | 737,235 |
| Total long-term liabilities | \$ 44,764,321 | \$ 14,803 | \$ 6,892,494 | \$ 37,886,630 | \$ 2,909,860 |

| | 2020 | | | | |
|---|-------------------|--------------|--------------|----------------|-----------------|
| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
| Bonds, note and capital leases: | | | | | |
| Bonds payable | \$ 36,492,237 | \$ - | \$ 1,734,732 | \$ 34,757,505 | \$ 1,796,643 |
| Bond premium/discount | 31,774 | - | 2,204 | 29,570 | - |
| Note payable | 375,000 | 1,200,000 | 150,000 | 1,425,000 | 325,000 |
| Capital lease obligations | 620,090 | - | 204,417 | 415,673 | 82,605 |
| Total bonds, note and capital leases | 37,519,101 | 1,200,000 | 2,091,353 | 36,627,748 | 2,204,248 |
| Other long-term liabilities: | | | | | |
| Advances from federal sponsors | 41,792 | 360,709 | 64,429 | 338,072 | - |
| Compensated absences | 1,352,649 | 107,148 | 166,622 | 1,293,175 | 774,089 |
| Net pension liability | 238,603 | 12,739 | - | 251,342 | - |
| Other postemployment benefits liability | 8,255,790 | - | 2,001,806 | 6,253,984 | - |
| Total other long-term liabilities | 9,888,834 | 480,596 | 2,232,857 | 8,136,573 | 774,089 |
| Total long-term liabilities | \$ 47,407,935 | \$ 1,680,596 | \$ 4,324,210 | \$ 44,764,321 | \$ 2,978,337 |

7. CAPITAL LEASES

The University had a capital lease for one of its athletic fields that held an interest rate of 1.67% and it matured in August 2020. In June 2019, the University entered into a capital lease obligation for the renovation of the stadium turf. The lease holds an interest of 4.89% and will mature in June 2026.

Future annual payments on the capital lease for years subsequent to June 30, 2021, are as follows:

| Years Ending June 30, | Principal | Interest | Total |
|----------------------------------|-------------------|------------------|-------------------|
| 2022 | \$ 60,276 | \$ 14,948 | \$ 75,224 |
| 2023 | 63,290 | 11,934 | 75,224 |
| 2024 | 66,455 | 8,768 | 75,223 |
| 2025 | 69,779 | 5,445 | 75,224 |
| 2026 | <u>73,269</u> | <u>1,955</u> | <u>75,224</u> |
| Total | <u>\$ 333,069</u> | <u>\$ 43,050</u> | <u>\$ 376,119</u> |

The net book value of capital assets held under the capital lease as of June 30, 2021 and 2020, was \$836,049 and \$932,390, net of accumulated depreciation of \$609,095 and \$512,753, respectively.

8. NOTE PAYABLE

In September 2016, the University received an interest free loan from the West Virginia Higher Education Policy Commission (HEPC) 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. In July 2019, the University received an interest free capital loan from HEPC in the amount of \$1,200,000 for energy efficient capital improvements. This loan is to be paid back in annual payments of \$175,000 for the next 7 years.

Future annual payments on the notes payable for years subsequent to June 30, 2021, are as follows:

| Years Ending June 30, | Principal | Interest | Total |
|----------------------------------|---------------------|-----------------|---------------------|
| 2022 | \$ 250,000 | \$ - | \$ 250,000 |
| 2023 | 175,000 | - | 175,000 |
| 2024 | 175,000 | - | 175,000 |
| 2025 | 175,000 | - | 175,000 |
| 2026 | 175,000 | - | 175,000 |
| 2027 | <u>150,000</u> | <u>-</u> | <u>150,000</u> |
| Total | <u>\$ 1,100,000</u> | <u>\$ -</u> | <u>\$ 1,100,000</u> |

9. BONDS PAYABLE

Bonds payable as of June 30, 2021 and 2020, consisted of the following:

| | <u>Interest Rate</u> | <u>Principal Amount Outstanding</u> | |
|--|----------------------|-------------------------------------|----------------------|
| | | <u>2021</u> | <u>2020</u> |
| Refunding Revenue Bonds, due through 2033 | 3.00% - 4.375% | \$ 3,835,000 | \$ 4,255,000 |
| Refunding Revenue Bonds, due through 2037 | 3.65% | 29,125,861 | 30,502,505 |
| | | 32,960,861 | 34,757,505 |
| Bond Premium | | 27,366 | 29,570 |
| | | <u>\$ 32,988,227</u> | <u>\$ 34,787,075</u> |

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

Refunding Revenue Bonds – On December 2, 2013, the University issued \$6.7 million in General Obligation Bonds with an average interest rate of 3.69% to advance refund \$7.1 million of outstanding 2003 and 2004 series bonds with an average interest rate of 4.27%.

On March 8, 2017, the University issued \$35.3 million in General Obligation Bonds with a fixed interest rate of 3.65% to advance refund \$35.3 million of the remaining outstanding 2005 and 2007 revenue bonds with an average interest rate of 4.5% and to pay the cost of issuance.

Summary of the annual aggregate principal and interest payments for years subsequent to June 30, 2021, are as follows:

| <u>Years Ending</u> <u>June 30</u> | <u>2013</u> | | <u>2017</u> | | <u>Total</u> | |
|---------------------------------------|---------------------|-------------------|----------------------|---------------------|----------------------|----------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2022 | \$ 435,000 | \$ 140,962 | \$ 1,427,349 | \$ 1,045,895 | \$ 1,862,349 | \$ 1,186,857 |
| 2023 | 445,000 | 127,913 | 1,479,923 | 993,161 | 1,924,923 | 1,121,074 |
| 2024 | 460,000 | 114,562 | 1,531,887 | 941,038 | 1,991,887 | 1,055,600 |
| 2025 | 240,000 | 99,613 | 1,590,857 | 881,889 | 1,830,857 | 981,502 |
| 2026 | 245,000 | 91,813 | 1,649,453 | 823,114 | 1,894,453 | 914,927 |
| 2027-2031 | 1,375,000 | 312,481 | 9,202,491 | 3,157,431 | 10,577,491 | 3,469,912 |
| 2032-2036 | 635,000 | 42,000 | 11,027,365 | 1,326,991 | 11,662,365 | 1,368,991 |
| 2037 | - | - | 1,216,536 | 59,033 | 1,216,536 | 59,033 |
| Total | <u>\$ 3,835,000</u> | <u>\$ 929,344</u> | <u>\$ 29,125,861</u> | <u>\$ 9,228,552</u> | <u>\$ 32,960,861</u> | <u>\$ 10,157,896</u> |

10. 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, 2020:

| | 2021 | 2020 |
|----------------------------------|----------------|--------------|
| Net OPEB Liability | \$ 1,618,601 | \$ 6,253,984 |
| Deferred Outflows of Resources | \$ 936,865 | \$ 962,503 |
| Deferred Inflows of Resources | \$ 5,342,207 | \$ 3,020,213 |
| Revenues | \$ 153,717 | \$ 379,155 |
| Expenses | \$ (1,480,852) | \$ 130,076 |
| Contributions Made by University | \$ 653,182 | \$ 701,898 |

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.

10. 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.

10. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Assumptions

The net OPEB liability for financial reporting purposes was measured as of June 30, 2020 and 2019. The liabilities were determined by actuarial valuations as of June 30, 2020 and 2019. 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 20 years; closed as of June 30, 2017.
- Investment rate of return: 6.65%, net of OPEB plan investment expense, including inflation.
- Projected salary increases: dependent on pension system ranging from 2.75% to 5.18%, including inflation.
- Healthcare cost trend rates: trend rate for pre-Medicare per capita cost of 7.0% for plan year end 2022, 6.5% for plan year 2023, decreasing by 0.25% each year thereafter, until ultimate trend rate of 4.25% is reached in plan year 2032. Trend rate for Medicare per capita costs of 31.11% for plan year end 2022, 9.15% for plan year end 2023, 8.4% for plan year end 2024, decreasing gradually each year thereafter, until ultimate trend rate of 4.25% is reached by plan year 2036.
- Inflation rate: 2.25%
- Wage inflation: 2.75% for PERS and TRS, and 3.25% for Troopers
- Discount rate: 6.65%
- Mortality rates Post-Retirement: TRS based on Pub-2010 General Healthy Retiree Mortality Tables projected with MP-2019 and scaling factors of 100% for males and 108% for females. PERS based on Pub-2010 Below-Median Income General Healthy Retiree Mortality Tables projected with MP-2019 and scaling factors of 106% for males and 113% for females. Troopers A and B based on Pub-2010 Public Safety Healthy Retiree Mortality Tables projected with MP-2019 scaling factors of 100% for males and females.
- Mortality rates Pre-Retirement: TRS based on Pub-2010 General Employee Mortality Tables projected with MP-2019. PERS based on Pub-2010 Below-Median Income General Employee Mortality Tables projected with MP-2019. Troopers A and B based on Pub-2010 Public Safety Employee Mortality Tables projected with MP-2019.
- Asset valuation method: Market value
- Aging factors: 2013 SOA Study "Health Care Costs – From Birth to Death"
- Expenses: Health administrative expenses are included in the development of the per capita claims cost. Operating expenses are included as a component of the annual expense.

The long-term investment rate of return of 6.65% on OPEB plan investments was determined by a combination of an expected long-term rate of return of 7.00% for long-term assets invested with the West Virginia Investment Management Board ("IMB") and an expected short-term rate of return of 2.5% 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.

10. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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 percentage. Target asset allocations, capital market assumptions and forecast returns were provided by the Plan's investment advisors, including West Virginia Investment Management Board (WVIMB). The projected return for the Money Market Pool held with the West Virginia Board of Treasury Investments was estimated based on WVIMB assumed inflation of 2.0% plus a 25 basis point spread. The target allocation and estimates of annualized long-term expected real returns assuming a 10-year horizon are summarized below.

| Asset Class | 2020 | | 2019 | |
|---------------------------|-------------------|--------------------------------|-------------------|--------------------------------|
| | Target Allocation | Long-term Expected Real Return | Target Allocation | Long-term Expected Real Return |
| Global equity | 55.0% | 6.8% | 49.5% | 4.8% |
| Core plus fixed income | 15.0% | 4.1% | 13.5% | 2.1% |
| Core real estate | 10.0% | 6.1% | 9.0% | 4.1% |
| Hedge fund | 10.0% | 4.4% | 9.0% | 2.4% |
| Private equity | 10.0% | 8.8% | 9.0% | 6.8% |
| Cash and cash equivalents | 0.0% | 0.0% | 10.0% | 0.3% |
| Target allocation | 100.0% | | 100.0% | |

The actuarial assumptions used in the June 30, 2020 valuations were based on the results of an actuarial experience study for the period July 1, 2015 through June 30, 2020. The actuarial assumptions used in the June 30, 2019 valuations were based on the results of an actuarial experience study for the period July 1, 2010 through June 30, 2015.

Discount rate. A single discount rate of 6.65% was used to measure the total OPEB liability. The single discount rate was based on the expected rate of return on OPEB plan investments of 6.65% and a tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date to the extent benefits are effectively financed on a pay-as-you-go basis. The long-term municipal bond rate used to develop the single discount rate was 3.13% as of the beginning of the year and 2.45% as of the end of the year. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made in accordance with the prefunding and investment policies. Future pre-funding assumptions include at \$30 million annual contribution from the State through 2037. Based on those assumptions, and that the Plan is expected to be fully funded by fiscal year ended June 30, 2025, 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.

10. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the University's proportionate share of the net OPEB liability as of June 30, 2021 and 2020 calculated using the discount rate of 6.65%, 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 (5.65%) or one percentage point higher (7.65%) than the current rate (dollars in thousands):

| | 1% Decrease (5.65%) | Current Discount Rate (6.65%) | 1% increase (7.65%) |
|--|------------------------|----------------------------------|------------------------|
| Net OPEB Liability as of June 30, 2021 | \$ 2,308,340 | \$ 1,618,601 | \$ 1,041,198 |
| Net OPEB Liability as of June 30, 2020 | \$ 7,463,945 | \$ 6,253,984 | \$ 5,241,451 |

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, 2021 and 2020 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 as of June 30, 2021 | \$ 973,926 | \$ 1,618,601 | \$ 2,397,237 |
| Net OPEB Liability as of June 30, 2020 | \$ 5,042,934 | \$ 6,253,984 | \$ 7,723,592 |

OPEB Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. The net OPEB liability was measured as of June 30, 2020 and 2019. The total OPEB liability was determined by actuarial valuations as of June 30, 2019 and 2018 and rolled forward to the respective dates.

The University's proportionate share of the net OPEB liability as of June 30, 2021 and 2020 are as follows:

| | 2021 | 2020 |
|--|---------------------|---------------------|
| Recognized University Net OPEB Liability | \$ 1,618,601 | \$ 6,253,984 |
| Nonemployer contributing entity's (State of West Virginia) portion of the collective net OPEB liability | 357,898 | 1,279,844 |
| Total net OPEB Liability | <u>\$ 1,976,499</u> | <u>\$ 7,533,828</u> |

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, 2020 and June 30, 2019. Employer contributions are recognized when due. At June 30, 2020 and 2019, the University's proportion was .366454900% and .376943054%, respectively.

10. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The University recognized OPEB expense for the years ended June 30, 2021 and 2020 as follows:

| | <u>2021</u> | <u>2020</u> |
|--|-----------------------|-------------------|
| University's proportionate share of OPEB expense | \$ (1,634,569) | \$ (249,079) |
| OPEB expense attributable to special funding from a nonemployer contributing entity | <u>153,717</u> | <u>379,155</u> |
| Total OPEB expense | <u>\$ (1,480,852)</u> | <u>\$ 130,076</u> |

The University also recognized revenue of \$153,717 and \$379,155 for support provided by the State for years ended June 30, 2021 and 2020, respectively.

At June 30, 2021 and 2020, deferred outflows of resources and deferred inflows of resources related to OPEB are as follows:

| | <u>2021</u> | <u>2020</u> |
|---|---------------------|---------------------|
| Deferred Outflows of Resources | | |
| Changes in proportion and difference between employer contributions and proportionate share of contributions | \$ 160,821 | \$ 259,062 |
| Reallocation of Opt-out employer change in proportionate share | - | 1,543 |
| Net difference between projected and actual investment earnings | 122,862 | - |
| Contributions after the measurement date | 653,182 | 701,898 |
| Total Deferred Outflows of Resources | <u>\$ 936,865</u> | <u>\$ 962,503</u> |
| Deferred Inflows of Resources | | |
| Changes in proportion and difference between employer contributions and proportionate share of contributions | \$ 538,354 | \$ 786,742 |
| Net difference between projected and actual investment earnings | - | 67,467 |
| Changes in assumptions | 3,653,520 | 1,268,357 |
| Reallocation of Opt-out employer change in proportionate share | 100,862 | 168,258 |
| Differences between expected and actual experience | 1,049,471 | 729,392 |
| Total Deferred Inflows of Resources | <u>\$ 5,342,207</u> | <u>\$ 3,020,216</u> |

The University will recognize the \$653,182 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Fiscal Year Ended | Amortization |
|-------------------|---------------------|
| June 30, 2022 | \$ 2,077,628 |
| June 30, 2023 | 1,707,650 |
| June 30, 2024 | 1,258,448 |
| June 30, 2025 | <u>14,798</u> |
| | <u>\$ 5,058,524</u> |

11. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

The University is a State institution of higher education, and the University receives a State appropriation to finance its operations. In addition, it is subject to the legislative and administrative mandates of the State government. Those mandates affect all aspects of the University's operations, its tuition and fee structure, its personnel policies, and its administrative practices.

The State has chartered the Commission with the responsibility to construct or renovate, finance, and maintain various academic and other facilities of the State's universities and colleges, including certain facilities of the University. Financing for these facilities was provided through revenue bonds issued by the former Board of Regents or the former Boards of the University and College Systems (the Boards"). These obligations administered by the Commission are the direct and total responsibility of the Commission, as successor to the former Boards.

The Commission has the authority to assess each public institution of higher education for payment of debt service on these system bonds. The tuition and registration fees of the members of the former State University System are generally pledged as collateral for the Commission's bond indebtedness. Student fees collected by the institution in excess of the debt service allocation are retained by the institution for internal funding of capital projects and maintenance. Although the bonds remain as capital obligations of the Commission, an estimate of the obligation of each institution is reported as a long-term payable by each institution and as a receivable by the Commission, effective as of June 30, 2002.

Debt service assessed for the years ending June 30, 2021 and 2020 are as follows:

| | <u>2021</u> | <u>2020</u> |
|---|------------------|------------------|
| Fees assessed by the Commission for debt service | \$ <u>16,321</u> | \$ <u>16,939</u> |

12. UNRESTRICTED COMPONENTS OF NET POSITION

The University did not have any board designated unrestricted components of net position as of June 30, 2021 or 2020.

| | <u>2021</u> | <u>2020</u> |
|---|---------------------|-----------------------|
| Total unrestricted net position before OPEB and net pension liability | \$ 1,732,362 | \$ 3,437,441 |
| Less Net pension liability | (245,983) | (251,342) |
| Less OPEB liability | <u>(1,618,601)</u> | <u>(6,253,984)</u> |
| Total unrestricted component of net position | <u>\$ (132,222)</u> | <u>\$ (3,067,885)</u> |

13. DEFINED CONTRIBUTION PLANS

Substantially, all full-time employees of the University participate in either the West Virginia Teachers' retirement System (TRS), the Teachers' Insurance and Annuities Association — College Retirement Equities Fund (TIAA-CREF), or Great West Retirement Services (the "Great West"). Previously, upon full-time employment, all employees were required to make an irrevocable selection between the TRS and TIAA-CREF. Effective July 1, 1991, the TRS was closed to new participants. Current participants in the TRS are permitted to make a one-time election to cease their participation in that plan and commence contributions to the West Virginia Teachers' Defined Contribution Plan. Contributions to and participation in the West Virginia Teachers' Defined Contribution Plan by University employees have not been significant to date.

Effective January 1, 2003, higher education employees enrolled in the basic 401(a) retirement plan with TIAA-CREF have an option to switch to the Great West basic retirement plan. New hires have the choice of either plan.

The TIAA-CREF and Great West are defined contribution benefit plans in which benefits are based solely upon amounts contributed, plus investment earnings. Employees who elect to participate in these plans are required to make a contribution equal to 6% of total annual compensation. The University matches the employees' 6% contribution. Contributions are immediately and fully vested. In addition, employees may elect to make additional contributions to TIAA-CREF which are not matched by the University.

The total contributions that the University was required to contribute to the TIAA-CREF for the years ended June 30, 2021, 2020, and 2019, were \$2,629,711, \$2,612,850, and \$2,609,001, respectively, and covered employees in 2021, 2020, and 2019 of \$1,314,855, \$1,306,425, and \$1,306,297, respectively.

The total contributions that the University was required to contribute to the Great West for the years ended June 30, 2021, 2020, and 2019, were \$112,025, \$120,230, and \$148,394, respectively, and the covered employee in 2021, 2020, and 2019 of \$56,012, \$60,115, and \$75,117, respectively.

The University's total payroll for the years ended June 30, 2021 and 2020 was \$25,392,155 and \$25,304,290, respectively, and total covered employees' salaries in TIAA-CREF and Great West were, \$22,081,837 and \$933,536 in 2021, and \$21,781,480 and \$1,001,918 in 2020, respectively.

14. DEFINED BENEFIT PENSION PLAN

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

14. DEFINED BENEFIT PENSION PLAN (CONTINUED)

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, 2021 and 2020:

| | 2021 | 2020 |
|--------------------------------|------------|------------|
| Net Pension Liability | \$ 245,983 | \$ 251,342 |
| Deferred Outflows of Resources | \$ 54,125 | \$ 60,517 |
| Deferred Inflows of Resources | \$ 48,070 | \$ 67,857 |
| Revenues | \$ 59,899 | \$ 73,182 |
| Pension Expense | \$ 41,145 | \$ 3,617 |
| Contributions Made by Shepherd | \$ 13,222 | \$ 31,751 |

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.

14. 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 payrolls 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 \$73,182 and \$54,565 as of June 30, 2021 and 2020, respectively.

The University's contributions to TRS for the years ended June 30, 2021, 2020, and 2019, were approximately \$13,222, \$31,751, and \$36,597, respectively.

Assumptions

The total pension liabilities for financial reporting purposes as of June 30, 2021 were determined by actuarial valuation as of July 1, 2019 and rolled forward to June 30, 2020. Total pension liabilities as of June 30, 2020 were determined by actuarial valuation as of July 1, 2018 and rolled forward to June 30, 2019. 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: Fair value
- Amortization method and period: Level dollar, fixed period through fiscal year 2029.
- Investment rate of return of 7.50%,
- Projected salary increases: state 3.00–6.00% and non-state 3.00–6.50%,
- Inflation rate of 3.0%.
- Discount rate of 7.50%

14. DEFINED BENEFIT PENSION PLAN (CONTINUED)

- Mortality rates: *Active* – Pub-2010 General Employee Tables, headcount-weighted, projected with Scale MP-2019
Health Male Retirees – Pub-2010 General Retiree Male Table, headcount-weighted, projected with Scale MP-2019
Health Female Retirees – 112% of Pub-2010 General Retiree Female Table, headcount-weighted, projected with Scale MP-2019
Disabled Males – 107% of Pub-2010 General/Teachers Disabled Male Table, headcount-weighted, projected with Scale MP-2019
Disabled Females – 113% of Pub-2010 General/Teachers Disabled Female Table, headcount-weighted, projected with Scale MP-2019
- Withdrawal rates: state 7-35.0% and non-state 2.33-18.00%.
- Disability rates: 0.004-0.563%
- Retirement age: An age-related assumption is used for participants not yet receiving payments.
- Retirement rates: 15-100%
- *Ad hoc* cost-of-living increases in pensions are periodically granted by the State Legislature. However, the retirement system makes no automatic provision for such increases.

Experience studies are performed at least once in every five-year period. The most recent experience study covered the period from July 1, 2014 to June 30, 2019. 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 are summarized below.

| Asset Class | 2020 | | 2019 | |
|----------------------|--------------------------------|-------------------|--------------------------------|-------------------|
| | Long-term Expected Real Return | Target Allocation | Long-term Expected Real Return | Target Allocation |
| Domestic Equity | 5.5% | 27.5% | 5.8% | 27.5% |
| International Equity | 7.0% | 27.5% | 7.7% | 27.5% |
| Fixed Income | 2.2% | 15.0% | 3.3% | 15.0% |
| Real Estate | 6.6% | 10.0% | 6.1% | 10.0% |
| Private Equity | 8.5% | 10.0% | 8.8% | 10.0% |
| Hedge Funds | 4.0% | 10.0% | 4.4% | 10.0% |
| Target Allocation | | 100.0% | | 100.0% |

14. DEFINED BENEFIT PENSION PLAN (CONTINUED)

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.

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, 2021 and 2020 calculated using the discount rate of 7.50%, as well as what the University's TRS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate (dollars in thousands).

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|---|------------------------|-------------------------------------|------------------------|
| Net Pension Liability as of June 30, 2021 | \$ 332,302 | \$ 245,983 | \$ 172,433 |
| Net Pension Liability as of June 30, 2020 | \$ 343,059 | \$ 251,342 | \$ 172,888 |

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, 2020 and 2019. The total pension liability was determined by actuarial valuations as of June 30, 2019 and 2018 rolled forward to the respective dates.

The University's proportionate share of the TRS net pension liability as of June 30, 2021 and 2020 are as follows:

| | 2021 | 2020 |
|---|-------------------|-------------------|
| Recognized University Net Pension Liability | \$ 245,983 | \$ 251,342 |
| University's proportionate share of net pension liability due to special funding situation | <u>534,515</u> | <u>606,786</u> |
| Total University Proportionate Share of TRS Net Pension Liability | <u>\$ 780,498</u> | <u>\$ 858,128</u> |

The allocation percentage assigned to each participating employer and non-employer contributing entity is based on their proportionate share of employer and non-employer contributions to TRS for each of the fiscal years ended June 30, 2020 and 2019. Employer contributions are recognized when due. At June 30, 2020 and 2019, the University's proportion was 0.007637% and 0.008448%, respectively.

14. DEFINED BENEFIT PENSION PLAN (CONTINUED)

The University recognized TRS pension expense for the years ended June 30, 2021 and 2020 as follows:

| | <u>2021</u> | <u>2020</u> |
|--|------------------|-----------------|
| University's porportionate share of TRS expense | \$ (18,754) | \$ (69,565) |
| Pension expense attributable to special funding from a non-employer contributing entity | <u>59,899</u> | <u>73,182</u> |
| Total TRS pension expense | <u>\$ 41,145</u> | <u>\$ 3,617</u> |

The University also recognized revenue of \$59,899 and \$73,182 for support provided by the State for years ended June 30, 2021 and 2020, respectively.

At June 30, 2021 and 2020, deferred outflows of resources and deferred inflows of resources related to the TRS pension are as follows:

| | <u>2021</u> | <u>2020</u> |
|---|------------------|------------------|
| Deferred Outflows of Resources | | |
| Differences between expected and Actual Experience | \$ 5,652 | \$ 1,256 |
| Changes in Proportion and difference between employer contributions and proportionate share of contributions | 16,881 | 22,083 |
| Net difference between projected and actual earnings | 14,904 | - |
| Changes in assumptions | 3,466 | 5,427 |
| Contributions after the measurement date | <u>13,222</u> | <u>31,751</u> |
| Total Deferred Outflows of Resources | <u>\$ 54,125</u> | <u>\$ 60,517</u> |
| Deferred Inflows of Resources | | |
| Differences between expected and actual experience | \$ 5,401 | \$ 8,591 |
| Changes in Proportion and difference between employer contributions and proportionate share of contributions | 42,669 | 52,430 |
| Net difference between projected and actual investment earnings | <u>-</u> | <u>6,836</u> |
| Total Deferred Inflows of Resources | <u>\$ 48,070</u> | <u>\$ 67,857</u> |

Payables to the pension plan

The University did not report any amounts payable for normal contributions to the TRS as of June 30, 2021 and 2020.

14. DEFINED BENEFIT PENSION PLAN (CONTINUED)

The University will recognize the 2021 pension contributions of \$13,222 as a reduction of the TRS net pension liability in the year ended June 30, 2021. Other 2021 amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in TRS pension expense as follows:

| <u>Fiscal Year Ended</u> | <u>Amortization</u> |
|--------------------------|---------------------|
| June 30, 2022 | \$ (12,008) |
| June 30, 2023 | (6,674) |
| June 30, 2024 | 7,604 |
| June 30, 2025 | 3,911 |
| | <u>\$ (7,167)</u> |

15. FOUNDATION

The Foundation is a separate nonprofit organization incorporated in the State and has as its purpose "...to aid, strengthen, and further in every proper and useful way, the work and services of the University and its affiliated nonprofit organizations..." Oversight of the Foundation is the responsibility of its separate and independently elected Board of Directors, not otherwise affiliated with the University. In carrying out its responsibilities, the Board of Directors of the Foundation employs management, forms policy, and maintains fiscal accountability over funds administered by the Foundation. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is therefore discretely presented with the University's financial statements in accordance with GASB.

Based on the Foundation's audited financial statements as of June 30, 2021 and 2020, the Foundation's net assets (including unrealized gains) totaled \$36,819,473 and \$29,782,370, 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, 2021 and 2020, the Foundation contributed \$1,846,785 and \$2,170,010, respectively, to the University for scholarships and awards.

16. AFFILIATED ORGANIZATION

The University has a separately incorporated an affiliated organization, the Alumni Association and Friends of Shepherd University. Oversight responsibility for this entity rests with an independent board and management not otherwise affiliated with the University, and a benefit/burden relationship does not exist between them and the University. Therefore, their operations are not listed as a component unit of the University.

17. COMMITMENTS AND CONTINGENCIES

Leases

The University executed an operating lease agreement for the Martinsburg Center campus at 261 Aikens Center, Martinsburg, West Virginia in 2014. The lease agreement includes scheduled rent increases over the term of the lease, which will be recognized on a straight-line basis over the term of the lease. The lease expires June 2023. Rental expense under the operating lease was \$113,004 and \$113,004 for the years ended June 30, 2021 and 2020, respectively. The rent expense is included in supplies and other services (Instruction) in the accompanying statements of revenues, expenses, and changes in net position.

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

| | Leases |
|------------------------------|--------------------------|
| 2022 | \$ 114,699 |
| 2023 | <u>118,140</u> |
| Total minimum lease payments | <u><u>\$ 232,839</u></u> |

Claims

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

Federal Contracts

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

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.

17. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Arbitrage

The Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates. There are no arbitrage rebate liabilities as of June 30, 2021 or 2020.

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.

COVID-19

The COVID-19 pandemic is continuing to have significant effects on global markets, supply chains, businesses and communities. COVID-19 may impact various parts of the University's operations and financial results in fiscal year 2022, including but not limited to, decline in enrollment, loss of auxiliary revenues, additional bad debts and increased costs for technology. The University is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events occurred subsequent to year end and are still developing.

18. 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, 2019. For the years ending June 30, 2021 and 2020, total ground rent due from SUFSO was \$57,701 and \$0, respectively.

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.

19. SEGMENT INFORMATION

Condensed statements of net position as of June 30, 2021 and 2020:

| | Refunding Revenue Bonds 2013 | | Refunding Revenue Bonds 2017 | |
|------------------------------------|---------------------------------|-----------------------------|---------------------------------|-----------------------------|
| | 2021 | 2020 | 2021 | 2020 |
| Assets: | | | | |
| Current assets | \$ 4,661,186 | \$ 4,958,257 | \$ 1,358,158 | \$ 2,937,564 |
| Noncurrent assets | <u>7,915,417</u> | <u>7,126,934</u> | <u>35,883,200</u> | <u>36,838,820</u> |
| Total assets | <u>\$ 12,576,603</u> | <u>\$ 12,085,191</u> | <u>\$ 37,241,358</u> | <u>\$ 39,776,384</u> |
| Liabilities: | | | | |
| Current liabilities | \$ 575,180 | \$ 548,471 | \$ 2,507,127 | \$ 2,354,390 |
| Noncurrent liabilities | <u>3,427,366</u> | <u>3,864,570</u> | <u>27,698,512</u> | <u>29,125,862</u> |
| Total liabilities | <u>4,002,546</u> | <u>4,413,041</u> | <u>30,205,639</u> | <u>31,480,252</u> |
| Net position: | | | | |
| Net investment in capital assets | 4,053,051 | 2,842,364 | 6,747,786 | 6,323,404 |
| Restricted: | | | | |
| Unrestricted | <u>4,521,006</u> | <u>4,829,786</u> | <u>287,932</u> | <u>1,972,728</u> |
| Total net position | <u>8,574,057</u> | <u>7,672,150</u> | <u>7,035,718</u> | <u>8,296,132</u> |
| Total net position and liabilities | <u><u>\$ 12,576,603</u></u> | <u><u>\$ 12,085,191</u></u> | <u><u>\$ 37,241,357</u></u> | <u><u>\$ 39,776,384</u></u> |

Condensed statements of revenues, expenses, and changes in net position for the years ended June 30, 2021 and 2020:

| | Refunding Revenue Bonds 2013 | | Refunding Revenue Bonds 2017 | |
|-----------------------------------|---|---------------------|---|---------------------|
| | 2021 | 2020 | 2021 | 2020 |
| Operating: | | | | |
| Operating revenues | \$ 1,444,100 | \$ 2,255,646 | \$ 8,198,590 | \$ 10,023,994 |
| Operating expenses | <u>(381,010)</u> | <u>(458,144)</u> | <u>(9,929,758)</u> | <u>(10,104,879)</u> |
| Net operating income | <u>1,063,090</u> | <u>1,797,502</u> | <u>(1,731,168)</u> | <u>(80,885)</u> |
| Nonoperating: | | | | |
| Nonoperating revenues | 7,651 | 108,328 | 1,576,446 | 232,029 |
| Nonoperating expenses | <u>(168,834)</u> | <u>(181,777)</u> | <u>(1,105,691)</u> | <u>(1,159,987)</u> |
| Net nonoperating loss | <u>(161,183)</u> | <u>(73,449)</u> | <u>470,755</u> | <u>(927,958)</u> |
| Increase (decrease) in net assets | 901,907 | 1,724,053 | (1,260,413) | (1,008,843) |
| Net position — beginning of year | <u>7,672,150</u> | <u>5,948,097</u> | <u>8,296,130</u> | <u>9,304,973</u> |
| Net position — end of year | <u>\$ 8,574,057</u> | <u>\$ 7,672,150</u> | <u>\$ 7,035,717</u> | <u>\$ 8,296,130</u> |

Condensed statements of cash flows for the years ended June 30, 2021 and 2020:

| | Refunding Revenue Bonds 2013 | | Refunding Revenue Bonds 2017 | |
|---|---|---------------------|---|---------------------|
| | 2021 | 2020 | 2021 | 2020 |
| Net cash provided by operating activities | \$ 1,953,174 | \$ 2,098,414 | \$ (679,025) | \$ 923,184 |
| Net cash used in capital and related financing | (2,258,333) | (771,135) | (1,215,908) | (3,049,264) |
| Net cash provided by (used in) investing activities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Increase (decrease) in cash and cash equivalents | (305,159) | 1,327,279 | (1,894,933) | (2,126,080) |
| Cash and cash equivalents — beginning of year | <u>4,681,381</u> | <u>3,354,102</u> | <u>2,822,023</u> | <u>4,948,103</u> |
| Cash and cash equivalents — end of year | <u>\$ 4,376,222</u> | <u>\$ 4,681,381</u> | <u>\$ 927,090</u> | <u>\$ 2,822,023</u> |

20. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2021 and 2020, the following represents operating expenses within both natural and functional classifications:

| 2021 | Salaries and Wages | Benefits | Supplies and Other Services | Utilities | Scholarships and Fellowships | Depreciation | Total |
|--|--------------------------|---------------------|--------------------------------------|---------------------|------------------------------------|---------------------|----------------------|
| Instruction | \$ 13,604,628 | \$ 2,785,101 | \$ 948,756 | \$ 3,112 | \$ - | \$ - | \$ 17,341,597 |
| Research | 182,712 | 23,375 | 85,172 | - | - | - | 291,259 |
| Public service | 109,180 | 21,819 | 10,146 | - | - | - | 141,146 |
| Academic support | 1,974,206 | 393,086 | 823,521 | 1,221 | - | - | 3,192,033 |
| Student services | 2,084,280 | 506,801 | 648,451 | - | - | - | 3,239,532 |
| General institutional support | 3,018,555 | (1,275,439) | 2,631,210 | - | - | - | 4,374,327 |
| Operations and maintenance of plant | 1,392,228 | 370,085 | 877,804 | 1,560,905 | - | - | 4,201,022 |
| Student financial aid | - | - | - | - | 3,992,170 | - | 3,992,170 |
| Auxiliary enterprises | 3,026,365 | 722,114 | 3,895,811 | 1,310,781 | - | - | 8,955,071 |
| Depreciation | - | - | - | - | - | 6,025,951 | 6,025,951 |
| Total | <u>\$ 25,392,155</u> | <u>\$ 3,546,943</u> | <u>\$ 9,920,871</u> | <u>\$ 2,876,018</u> | <u>\$ 3,992,170</u> | <u>\$ 6,025,951</u> | <u>\$ 51,754,108</u> |

| 2020 | Salaries and Wages | Benefits | Supplies and Other Services | Utilities | Scholarships and Fellowships | Depreciation | Total |
|--|--------------------------|---------------------|--------------------------------------|---------------------|------------------------------------|---------------------|----------------------|
| Instruction | \$ 13,148,911 | \$ 2,730,172 | \$ 1,088,366 | \$ 3,439 | \$ - | \$ - | \$ 16,970,888 |
| Research | 204,032 | 38,212 | 49,446 | - | - | - | 291,690 |
| Public service | 130,366 | 25,791 | 19,682 | - | - | - | 175,839 |
| Academic support | 1,871,268 | 382,627 | 910,972 | 1,198 | - | - | 3,166,065 |
| Student services | 2,188,722 | 525,736 | 770,112 | - | - | - | 3,484,570 |
| General institutional support | 3,026,258 | 216,074 | 3,070,650 | - | - | - | 6,312,982 |
| Operations and maintenance of plant | 1,438,108 | 404,401 | 735,561 | 1,644,566 | - | - | 4,222,636 |
| Student financial aid | - | - | - | - | 3,885,378 | - | 3,885,378 |
| Auxiliary enterprises | 3,296,625 | 785,430 | 3,923,363 | 1,404,142 | - | - | 9,409,560 |
| Depreciation | - | - | - | - | - | 6,113,481 | 6,113,481 |
| Total | <u>\$ 25,304,290</u> | <u>\$ 5,108,443</u> | <u>\$ 10,568,152</u> | <u>\$ 3,053,345</u> | <u>\$ 3,885,378</u> | <u>\$ 6,113,481</u> | <u>\$ 54,033,089</u> |

21. COMPONENT UNIT'S DISCLOSURES

The consolidated notes, taken directly from the audited financial statements of the Shepherd University Foundation, Inc. and Supporting Organization, are as follows:

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.

Nature of Operations and Program Activities

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 operation of the Potomac Place residence hall 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.

Revenues are reported as increases in net assets without donor restriction unless use of the related assets are limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on assets or liabilities are reported as increases or decreases in net assets without donor restriction unless their use is restricted by explicit donor stipulation or by law. Expirations of net assets with donor restriction (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 or related parties to the University are reported as custodial liabilities. The Foundation is responsible for the management and administration of these funds.

Net Assets

The Foundation is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. A description of the two net asset categories follows:

Net Assets Without Donor Restriction

Net assets that are not subject to donor-imposed stipulations. Net assets without donor imposed restrictions include net assets designated by the board for a specific purpose, namely to provide college support to Shepherd University. Board-designated net assets amounted to \$132,043 and \$83,923 at June 30, 2021 and 2020, respectively, which were made up of cash and cash equivalents.

Nets Assets With Donor Restriction

Net assets whose use by the Foundation is subject to donor-imposed restrictions that can be fulfilled by actions of the Foundation pursuant to those restrictions or that expire by the passage of time, and net assets subject to donor-imposed restrictions that are to be maintained in perpetuity by the Foundation. Generally, restrictions are to provide assistance and support for the students, facilities and programs of Shepherd University.

Investments

The Foundation accounts for its investments in accordance with United States generally accepted accounting principles (U.S. GAAP). Under U.S. 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.

Contributions

Unconditional 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. Donated stock is recorded at its fair market value on the date of receipt.

The Foundation does not recognize contributions that are conditional; that is, contributions are recognized at the point in time that any barriers to overcome have been met and when no right of return exists. Conditional contributions not included in the Foundation's financial statements include testamentary gifts and any other contributions contingent on the occurrence of an event that has not yet happened.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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%.

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 |
| Residence hall building and improvement | 40 |
| Residence hall furniture and fixtures | 5 |

Loan Origination Costs

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. In April 2019, an additional \$23,000 loan costs associated with this permanent financing was incurred. These costs are being amortized using the straight-line method over the life of the related debt, which is 40 years.

Advertising

Advertising costs are expensed as incurred and amounted to \$2,230 and \$1,165 for the years ended June 30, 2021 and 2020, respectively.

Functional Expenses

Certain costs have been allocated among the programs and supporting services. Allocation of costs by function is based principally on specific identification of costs to either program or general and administrative expenses. Non-specifically identified costs are based on square footage allocations and on management's allocation of time requirements incurred for the various functions based on their analysis of historical activities. The Foundation did not engage in any material fundraising activities during the years ended 2021 and 2020, respectively.

Residence Hall Revenue, Accounts Receivable and Deferred Revenues

Revenues related to the operation of the Potomac Place residence hall 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 residence hall 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, 2021 and 2020, management feels all receivables will be collected and therefore, has not established an allowance for doubtful accounts.

Adoption of New Accounting Standard – Revenue Recognition

On July 1, 2020, the Foundation adopted the Financial Accounting Standards Board (FASB) ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard replaces most existing revenue recognition guidance in accounting principles generally accepted in the United States of America (US GAAP) and permits the use of either a full retrospective or retrospective with cumulative effect transition method, the latter of which was used by the Organization. Implementation of this standard did not result in any change to equity as of the beginning of the year and did not result in changes to the Foundation's revenue recognition processes or related timing.

The Foundation's only revenue stream containing exchange transactions with customers that were subject to ASU 2014-09 are the sales of tickets and sponsorships to the annual Scarborough Society Gala. The Scarborough Society Gala ticket and sponsorship sales contain a single performance obligation and revenue is recognized at a single point in time when the Scarborough Society Gala event is held. There are no receivables, contract assets or contract liabilities associated with the Scarborough Society Gala.

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, if the donor wishes to distribute available earnings on an existing fund to another fund within the Foundation or when a fund pays their share of management fees due to the Foundation.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax Exempt Status

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

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.

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.

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, 2021.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risks and Uncertainties

The Foundation's investment portfolio contains government obligations, fixed income bonds, mutual funds, hedge funds 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.

Recent economic and government reactions to the COVID-19 pandemic have resulted in temporary reductions or ceasing of operations for some businesses and created economic uncertainties. These events could impact the ability of the Foundation to maintain its operating results at the same level. However, the financial impact and duration cannot be reasonably estimated at this time.

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 Pronouncements

In February 2016, FASB issues ASU 2016-02, Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. The new standard is effective for the Foundation starting July 1, 2022. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Foundation will be evaluating the effect the standard will have on the financial statements.

NOTE 2 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 9, 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 into a property replacement reserve account. The amount of required monthly deposit was \$5,245 at June 30, 2021 and increases by 3% each February until the USDA loan is paid off.

In September 2020, the Foundation received approval from the USDA to defer payments on the USDA loan discussed in Note 9. In conjunction with the loan deferral, the Foundation was instructed by the USDA to stop making monthly payments to the debt service reserve account and the property replacement reserve account from September 2020 until the end of the loan deferral period. The available balance in the debt service reserve account had to be applied to principle payments due before the principal deferral period could start.

Cash and cash equivalents consisted of the following at June 30, 2021 and 2020:

| | 2021 | 2020 |
|--|----------------------------|----------------------------|
| Restricted cash: | | |
| Cash associated with custodial liabilities | \$ 1,170,776 | \$ 952,962 |
| Cash associated with restricted funds | 2,898,644 | 2,305,476 |
| Debt service reserve account | - | 223,902 |
| Property replacement reserve account | <u>153,085</u> | <u>142,752</u> |
| Total restricted cash | 4,222,505 | 3,625,092 |
| Unrestricted cash | <u>-</u> | <u>-</u> |
| Total cash and cash equivalents | <u><u>\$ 4,222,505</u></u> | <u><u>\$ 3,625,092</u></u> |

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, 2025.

Pledges receivable as of June 30, 2021 and 2020 consist of net assets with donor restriction. 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.

| | 2021 | 2020 |
|------------------------------------|---------------------|---------------------|
| Receivable in less than one year | \$ 910,850 | \$ 1,069,771 |
| Receivable in one to five years | 387,667 | 1,194,566 |
| Total pledges receivable | 1,298,517 | 2,264,337 |
| Less discount to net present value | (23,200) | (89,418) |
| Net Pledges Receivable | <u>\$ 1,275,317</u> | <u>\$ 2,174,919</u> |

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, 2021 and 2020 are composed of the following:

| Description | Cost | Market |
|---------------------------|----------------------|----------------------|
| 2021 | | |
| Certificates of deposit | \$ 699,087 | \$ 699,087 |
| Government securities | 1,423,423 | 1,481,617 |
| Corporate bonds and notes | 2,009,689 | 2,074,206 |
| Mutual funds | 18,083,923 | 25,470,946 |
| Hedge funds | 1,690,818 | 1,818,075 |
| Stocks | 1,986,034 | 3,168,786 |
| Investment Securities | <u>\$ 25,892,974</u> | <u>\$ 34,712,717</u> |
| 2020 | | |
| Certificates of deposit | \$ 695,007 | \$ 695,007 |
| Government securities | 2,300,818 | 2,408,683 |
| Corporate bonds and notes | 1,978,447 | 2,046,112 |
| Mutual funds | 15,751,968 | 17,804,357 |
| Hedge funds | 1,464,699 | 1,490,056 |
| Stocks | 1,790,949 | 2,420,817 |
| Investment Securities | <u>\$ 23,981,888</u> | <u>\$ 26,865,032</u> |

NOTE 4 INVESTMENTS (CONTINUED)

At June 30, 2021 and 2020, there was \$1,352,054 and \$1,451,656, 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 |
|--------------------|-------------------|-------------------------------------|-----------------------|
| 2021 | | | |
| Land | \$ 40,000 | \$ - | \$ 40,000 |
| Building | 160,202 | 103,463 | 56,739 |
| | <u>\$ 200,202</u> | <u>\$ 103,463</u> | <u>\$ 96,739</u> |
| 2020 | | | |
| Land | \$ 40,000 | \$ - | \$ 40,000 |
| Building | 160,202 | 99,458 | 60,744 |
| | <u>\$ 200,202</u> | <u>\$ 99,458</u> | <u>\$ 100,744</u> |

Depreciation expense related to investment in real estate amounted to \$4,005 for each year ended June 30, 2021 and 2020, respectively.

The following is a summary of the Foundation's investments at June 30, 2021 and 2020:

| Description | 2021 | 2020 |
|-----------------------|----------------------|----------------------|
| Investment Securities | \$ 34,712,717 | \$ 26,865,032 |
| Real estate | 96,739 | 100,744 |
| | <u>\$ 34,809,456</u> | <u>\$ 26,965,776</u> |

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

NOTE 5 INTEREST IN LIFE ESTATE (CONTINUED)

making a present commitment to a future charitable gift. The value of the property is based upon a third-party appraisal value at the date of transfer of \$447,500, discounted by the present value of the fair market rental value of the property at the time of the transfer of \$1,700 per month. The present value was calculated based upon the life expectancy of the donor as 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, 2021 and 2020 were \$425,812 and \$406,461, 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 PROPERTY AND EQUIPMENT

Equipment consists of the following:

| | 2021 | 2020 |
|--|----------------------|----------------------|
| Office equipment | \$ 22,299 | \$ 22,299 |
| Residence hall building and improvements | 20,082,300 | 20,082,300 |
| Residence hall furniture and fixtures | <u>1,012,802</u> | <u>1,012,802</u> |
| | 21,117,401 | 21,117,401 |
| Less: accumulated depreciation | <u>(2,781,667)</u> | <u>(2,073,290)</u> |
| Net Book Value | <u>\$ 18,335,734</u> | <u>\$ 19,044,111</u> |

Depreciation expense related to property and equipment was \$708,377 and \$708,942 for the years ended June 30, 2021 and 2020, 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 7 CUSTODIAL LIABILITIES

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

NOTE 7 CUSTODIAL LIABILITIES (CONTINUED)

The gross receipts and disbursements for the custodial accounts, and the net investment return on investments for the custodial accounts for the years ended June 30, 2021 and 2020 are as follows:

| | 2021 | 2020 |
|---------------------------------------|-------------------|-------------------|
| Custodial receipts | \$ 693,922 | \$ 666,011 |
| Custodial payments | (476,193) | (505,080) |
| Net investment return | 85 | 3,282 |
| Net Increase in Custodial Liabilities | <u>\$ 217,814</u> | <u>\$ 164,213</u> |

NOTE 8 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 \$73,277 and \$81,646 for the years ended June 30, 2021 and 2020, respectively.

NOTE 9 LOANS PAYABLE

As disclosed in Note 16, 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.

NOTE 9 LOANS PAYABLE (CONTINUED)

On January 19, 2018, the Shepherd University Supporting Organization borrowed \$21,892,000 under a 40-year USDA rural development loan to finance the Potomac Place student housing facility project. 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 Potomac Place student housing facility, 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 Potomac Place student housing facility 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.

Due to the economic impact caused by the COVID-19 pandemic on Potomac Place revenues, Shepherd University Foundation Supporting Organization applied for loan deferral offered by the USDA. In September 2020, Shepherd University Foundation Supporting Organization received approval from the USDA to defer all loan payments on the above loan after the debt service reserve had been fully depleted and, beginning in September 2020, to cease making the monthly debt service and equipment replacement reserve payments during the deferral period. Shepherd University Foundation Supporting Organization was able to make loan payments through November 2020 using the available balance of the debt service reserve cash account and began deferring loan payments in December 2020. The loan deferral period is set to expire in September 2021 unless an extension is requested and approved by the USDA. At the end of June 2021, Shepherd University Foundation Supporting Organization made a payment for all deferred loan interest that had accrued from the start of the loan deferral period through June 30, 2021.

The carrying value of the collateral securing the above loans was \$18,335,349 and \$19,039,967 at June 30, 2021 and 2020, respectively. Total interest capitalized during the construction period of the student housing facility project amounted to \$311,669.

The balance of loans payable, net of loan costs, at June 30, 2021 and 2020 is as follows:

| | 2021 | 2020 |
|---|-----------------------------|-----------------------------|
| USDA Rural Development Loan | \$ 21,028,602 | \$ 21,158,449 |
| Less: loan costs, net of accumulated amortization of \$3,652 and \$2,390, respectively | <u>(46,238)</u> | <u>(47,500)</u> |
| | <u><u>\$ 20,982,364</u></u> | <u><u>\$ 21,110,949</u></u> |

NOTE 9 LOANS PAYABLE (CONTINUED)

The future required principal payments as of June 30, 2021 are as follows:

| Year Ending June 30, | |
|-----------------------------|----------------------|
| 2022 | \$ 276,453 |
| 2023 | 340,262 |
| 2024 | 348,574 |
| 2025 | 360,329 |
| 2026 | 370,827 |
| Thereafter | <u>19,332,157</u> |
| | <u>\$ 21,028,602</u> |

Amortization of loan costs charged to interest expense for the years ended June 30, 2021 and 2020 was \$1,262 for each period.

NOTE 10 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at June 30, 2021 and 2020:

| | 2021 | 2020 |
|---|----------------------|----------------------|
| Restricted for a Specific Purpose | | |
| Scholarships, awards and college support | \$ 16,296,534 | \$ 9,192,792 |
| Restricted in Perpetuity | | |
| Endowment Funds | <u>23,844,302</u> | <u>23,340,453</u> |
| | <u>\$ 40,140,836</u> | <u>\$ 32,533,245</u> |
| Assets (Liabilities) | | |
| Cash and equivalents | \$ 2,898,644 | \$ 2,305,476 |
| Pledges receivable, net of present value adjustment | 1,275,317 | 2,174,919 |
| Accounts receivable | - | 250 |
| Accrued interest receivable | 30,638 | 32,152 |
| Investments | 34,712,717 | 26,865,032 |
| Interest in life estate | 425,812 | 406,461 |
| Accounts payable | <u>-</u> | <u>(12,000)</u> |
| | <u>\$ 39,343,128</u> | <u>\$ 31,772,290</u> |

At June 30, 2021 and 2020 there were deficits in the amounts of \$797,708 and \$760,955, respectively, of assets, net of liabilities, available to cover the balance of non-endowed net assets restricted for a specific purpose. As further disclosed in Note 19, this deficit was a result of expenditures exceeding revenues of the undesignated operating fund, which is reported as net assets without donor restriction.

NOTE 11 ENDOWMENTS

The Foundation's endowments consist of individual donor-restricted funds established to provide scholarships, awards and college support to the students, faculty and programs of Shepherd University. Net assets associated with endowment funds are classified and reported as net assets with donor restriction 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 net assets with donor restriction – restricted in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment. The net investment return on the endowment funds is classified as net assets with donor restrictions – restricted for a specific purpose until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA.

During the year ended June 30, 2021, the Shepherd University Foundation's Director revised the Foundation's spending policy. Under the revised policy, annually the Board of Directors will approve a distribution rate with a target rate of 2% and not exceed 3%. New endowments should be given time to appreciate and once the fund has appreciated at least 20% then distributions can be made in an amount equal to the annually approved distribution rate multiplied by the average market value of the fund for the previous 20 calendar quarters. Any undistributed net investment income is added to net assets with donor restrictions – restricted for a specific purpose.

Prior to the year ended June 20, 2021, the policy of the Foundation's Directors was to determine the amount of the annual income distribution based on the investment portfolio's total return for the previous fiscal year.

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 39.5% to 79.5% of the total fund, alternatives in the range of 0% to 20%, fixed income securities in the range of 0.5% to 40.5%, and cash in the range of 0% to 20%.

All endowment funds held at the Foundation are donor restricted endowment funds. Donor restricted endowment funds amounted to \$30,505,661 and \$24,124,439 as of June 30, 2021 and 2020, respectively.

NOTE 11 ENDOWMENTS (CONTINUED)

The changes in endowment net assets for the years ended June 30, 2021 and 2020 were as follows:

| | | |
|--|----|--------------------------|
| Endowment Net Assets at July 1, 2019 | \$ | 22,985,970 |
| Net investment return | | 80,139 |
| Contributions | | 2,024,853 |
| Transfers of funding with the Foundation | | (339,689) |
| Appropriations of endowment assets for expenditure | | <u>(626,834)</u> |
| Endowment Net Assets at June 30, 2020 | \$ | 24,124,439 |
| Net investment return | | 6,902,894 |
| Contributions | | 541,449 |
| Transfers of funding within the Foundation | | (728,233) |
| Appropriations of endowment assets for expenditure | | <u>(334,888)</u> |
| Endowment Net Assets at June 30, 2021 | \$ | <u><u>30,505,661</u></u> |

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Foundation to retain as a fund of perpetual duration (underwater endowments). At June 30, 2021, there were no underwater endowments. At June 30, 2020, three endowment funds with original gift values of \$2,118,347, fair values of \$2,100,375 and deficiencies of \$17,972 were reported in net assets with donor restrictions. These deficiencies resulted from unfavorable market fluctuations.

NOTE 12 FAIR VALUE MEASUREMENTS

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

- **Level 1** – Represented by quoted prices that are available in an active market. Level 1 securities include highly liquid government bonds, treasury securities, mortgage products and exchange traded equities.
- **Level 2** – Represented by assets and liabilities similar to Level 1 where quoted prices are not available, but are observable, either directly or indirectly through corroboration with observable market data, such as quoted prices for similar securities and quoted prices in inactive markets and estimated using pricing models or discounted cash flows. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed securities and swap agreements.
- **Level 3** – Represented by financial instruments where there is limited activity or unobservable market prices and pricing models significant to determining the fair value measurement include the reporting entity's own assumptions about the market risk. Level 3 securities would include hedge funds, private equity securities, and private investments in public entities.

NOTE 12 FAIR VALUE MEASUREMENTS (CONTINUED)

Fair value of assets measured on a recurring basis at June 30, 2021 and 2020 are as follows:

| | Assets at Fair Value | | | |
|---|----------------------|---------------|--------------|--------------|
| | Total | Level 1 | Level 2 | Level 3 |
| 2021 | | | | |
| Pledges Receivable | \$ 1,275,317 | \$ - | \$ - | \$ 1,275,317 |
| Government Securities | | | | |
| US Treasuries | 839,793 | 839,793 | - | - |
| Agency Securities | 85,836 | - | 85,836 | - |
| Municipal Bonds | 304,329 | - | 304,329 | - |
| Mortgage Pools | 251,659 | - | 251,659 | - |
| Corporate Bonds | 2,074,206 | - | 2,074,206 | - |
| Mutual Funds | | | | |
| US Large Cap | 8,860,063 | 8,860,061 | - | - |
| US Small and Mid-Cap | 2,564,219 | 2,564,219 | - | - |
| International Equity | 1,653,714 | 1,653,714 | - | - |
| Inflation-Protected Bond | 1,251,154 | 1,251,154 | - | - |
| Relative Value Arbitrage | 60,970 | 60,970 | - | - |
| Nontraditional Bond | 1,338,032 | 1,338,032 | - | - |
| Multisector Bond | 252,888 | 252,888 | - | - |
| High-Yield Bond | 1,587,638 | 1,587,638 | - | - |
| Options-Based Equity | 1,863,373 | 1,863,373 | - | - |
| Diversified Alternatives | 2,957,111 | 2,957,111 | - | - |
| Foreign Large Growth | 1,098,033 | 1,098,033 | - | - |
| Energy Limited Partnership | 1,262,755 | 1,262,755 | - | - |
| REITs | 720,996 | 720,996 | - | - |
| Stocks | | | | |
| US Small and Mid-Cap | 932,602 | 932,602 | - | - |
| US Large Cap | 408,188 | 408,188 | - | - |
| International Equity | 1,827,996 | 1,827,996 | - | - |
| Total Assets in the Fair Value Hierarchy | 33,470,872 | 29,479,523 | 2,716,030 | 1,275,317 |
| Investments Measured at Net Asset Value (a) | | | | |
| Ironwood Fund | 1,202,056 | | | |
| Golub Fund | 616,019 | - | - | - |
| | 1,818,075 | - | - | - |
| Total Assets at Fair Value | \$ 35,288,947 | \$ 29,479,523 | \$ 2,716,030 | \$ 1,275,317 |

NOTE 12 FAIR VALUE MEASUREMENTS (CONTINUED)

| | Assets at Fair Value | | | |
|---|----------------------|---------------|--------------|--------------|
| | Total | Level 1 | Level 2 | Level 3 |
| 2020 | | | | |
| Pledges Receivable | \$ 2,174,919 | \$ - | \$ - | \$ 2,174,919 |
| Government Securities | | | | |
| US Treasuries | 1,742,583 | 1,742,583 | - | - |
| Agency Securities | 108,158 | - | 108,158 | - |
| Municipal Bonds | 319,019 | - | 319,019 | - |
| Mortgage Pools | 238,923 | - | 238,923 | - |
| Corporate Bonds | 2,046,112 | - | 2,046,112 | - |
| Mutual Funds | | | | |
| US Large Cap | 6,912,699 | 6,912,699 | - | - |
| US Small and Mid-Cap | 1,969,500 | 1,969,500 | - | - |
| International Equity | 2,120,697 | 2,120,697 | - | - |
| US Bond | 983,754 | 983,754 | - | - |
| Energy Limited Partnership | 553,096 | 553,096 | - | - |
| International Bond | 675,164 | 675,164 | - | - |
| High-Yield Bond | 500,021 | 500,021 | - | - |
| REITs | 548,665 | 548,665 | - | - |
| Options-Based Equity | 1,282,543 | 1,282,543 | - | - |
| Diversified Alternatives | 2,258,218 | 2,258,218 | - | - |
| Stocks | | | | |
| US Small and Mid-Cap | 857,340 | 857,340 | - | - |
| US Large Cap | 294,457 | 294,457 | - | - |
| International Equity | 1,269,020 | 1,269,020 | - | - |
| Total Assets in the Fair Value Hierarchy | 26,854,888 | 21,967,757 | 2,712,212 | 2,174,919 |
| Investments Measured at Net Asset Value (a) | | | | |
| Ironwood Fund | 1,040,056 | | | |
| Golub Fund | 450,000 | - | - | - |
| | 1,490,056 | - | - | - |
| Total Assets at Fair Value | \$ 28,344,944 | \$ 21,967,757 | \$ 2,712,212 | \$ 2,174,919 |

- (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.

NOTE 12 FAIR VALUE MEASUREMENTS (CONTINUED)

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) consist of pledges receivable. The changes in Level 3 assets are as follows for the years ended June 30, 2021 and 2020:

| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Pledges Receivable | |
|------------------------------------|---|-----------|
| June 30, 2021 | | |
| Fair Value as of July 1, 2020 | \$ | 2,174,919 |
| New pledges | | 10,000 |
| Payments received | | (955,821) |
| Write-off of uncollectible pledges | | (20,000) |
| Change in valuation | | 66,219 |
| Fair Value as of June 30, 2021 | \$ | 1,275,317 |
| June 30, 2020 | | |
| Fair Value as of July 1, 2019 | \$ | 2,807,445 |
| New pledges | | 30,000 |
| Payments received | | (786,271) |
| Change in valuation | | 123,745 |
| Fair Value as of June 30, 2020 | \$ | 2,174,919 |

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, 2021 and 2020.

| | Fair Value | Unfunded Commitments | Redemption Frequency (If Currently Eligible) | Redemption Notice Period |
|----------------------|---------------------|---------------------------------|---|-------------------------------------|
| June 30, 2021 | | | | |
| Ironwood Fund (a) | \$ 1,202,056 | N/A | Semi-Annually | 95 days |
| Golub Fund (b) | <u>616,019</u> | N/A | Not Eligible | N/A |
| | <u>\$ 1,818,075</u> | | | |
| June 30, 2020 | | | | |
| Ironwood Fund (a) | \$ 1,040,056 | N/A | Semi-Annually | 95 days |
| Golub Fund (b) | <u>450,000</u> | N/A | Not Eligible | N/A |
| | <u>\$ 1,490,056</u> | | | |

NOTE 12 FAIR VALUE MEASUREMENTS (CONTINUED)

- (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.
- (b) The investment in Golub Capital Partners International 12, L.P. (Golub Fund) represents a limited partnership interest in a privately held speculative hedge fund. The Golub Fund's investment objective is to achieve attractive risk-adjusted returns relative to more liquid fixed income alternatives, with emphasis on current income and preservation of capital. The Golub Fund attempts to achieve this objective primarily by investing in senior secured, floating rate middle market loans, through wholly and partially owned holding companies and other investment vehicles. Most investment assets will be leveraged in the form of collateralized loan obligations and credit facilities. The Golub Fund plans to continue until July 1, 2028 and return all capital prior to that date at the general partner's discretion. Withdrawals of partnership interests generally are not permitted except in limited circumstances.

The Foundation has committed to a total maximum investment in the Golub Fund of \$1,000,000 of which \$616,019 has been invested as of June 30, 2021. The remaining commitment is due to Golub Fund on demand, and earnings of the fund may be applied as a reduction of the commitment.

NOTE 13 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, 2021 and 2020 was \$13,116 and \$12,987, respectively.

NOTE 14 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 15 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 \$1,888,719 and \$2,737,950 for the years ended June 30, 2021 and 2020, 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, 2021 and 2020, 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 Potomac Place student housing facility to the University for the purpose of operating a food service market to serve the students of the facility. The original lease agreement expired on June 30, 2020. Due to COVID-19, the housing facility was closed and the space was not leased from July 1, 2020 until a new lease agreement was executed in August 2020. The new lease commenced on August 10, 2020 and is scheduled to end on June 30, 2023. The required monthly payments under both of the above leases was \$2,700. Total rental revenue from this lease agreement amounted to \$28,980 and \$32,400 for the years ended June 30, 2021 and 2020, respectively.

As disclosed in Note 16, 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 \$57,701 and \$0 for the years ended June 30, 2021 and 2020, 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 amounted to \$694 and \$881, respectively. Amounts due to the University for reimbursement of operating expenses, reimbursements of credits paid to students and payment of the ground lease fee noted above amounted to \$102,736 and \$338,391 respectively. The amount due to the University for the year ended June 30, 2020 included a reimbursement of \$294,016 for student housing refund credits issued as a result of Potomac Place closures caused by the COVID-19 pandemic.

NOTE 16 POTOMAC PLACE STUDENT HOUSING FACILITY PROJECT

Shepherd University Foundation Supporting Organization designed and constructed Potomac Place, a 298 bed student housing facility on the Shepherd University campus. As disclosed in Note 9, the Supporting Organization permanently financed the construction costs of Potomac Place 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 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.

NOTE 16 POTOMAC PLACE STUDENT HOUSING FACILITY PROJECT (CONTINUED)

Rental payments will equal the net available cash flow generated from the operations of Potomac Place. Rent expense due to Shepherd University for the ground lease amounted to \$57,701 and \$0 for the years ended June 30, 2021 and 2020, respectively. Cumulative cash payments made to Shepherd University for ground lease rental payments since the residence hall became operational amounted to \$1,347,832 as of June 30, 2021.

The Supporting Organization has 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 Potomac Place. No additional fees, outside of the ground lease payments, are payable to Shepherd University for these services.

The residence hall room rental fee rates, number of students served per semester and total fees collected on student residence hall room rentals are noted below for the years ending June 30, 2021 and 2020.

| | 2021 | 2020 |
|--|---------------------|---------------------|
| Single Bed Rate - Term | \$ 3,317.00 | \$ 4,479.00 |
| Double Bed Rate - Term | \$ 3,317.00 | \$ 3,317.00 |
| Single Bed Rate - Daily | \$ 29.10 | \$ 39.29 |
| Double Bed Rate - Daily | \$ 29.10 | \$ 29.10 |
| Total Students Served - Fall Semester | 214 | 265 |
| Total Students Served - Spring Semester | 197 | 239 |
| Student Residence Hall Room Revenue During School Year | \$ 1,347,439 | \$ 1,447,709 |
| Residence Hall Rental for Summer Conferences | - | 39,767 |
| Rental Revenue from SU for Food Market | 28,980 | 32,400 |
| Late Fees and Fees for Damages | 866 | 4,121 |
| Less: Student Residence Hall Room Waivers | (46,438) | (50,453) |
| Total Net Residence Hall Room Rental for Fiscal Year | <u>\$ 1,330,847</u> | <u>\$ 1,473,544</u> |

Total Cash Collected on Current Year Accounts, net of refund credits issued for COVID-19 related closures of \$0 and \$294,016 in 2021 and 2020, respectively

| | |
|---------------------|---------------------|
| <u>\$ 1,307,453</u> | <u>\$ 1,445,737</u> |
|---------------------|---------------------|

NOTE 17 FUNCTIONAL EXPENSES

The allocation of the Foundation's expenses between program activities and support activities for the years ending June 30, 2021 and 2020 is as follows:

| | Program Activities | | | Support Activities | | |
|---------------------------------------|-------------------------------------|-------------------------|-----------------------------|---|--------------|--|
| | Scholarships and College Support | Dormitory Operations | Total Program Expense | General and Administrative Expenses | Total | |
| 2021 | | | | | | |
| Scholarships and awards | \$ 1,844,838 | \$ - | \$ 1,844,838 | \$ - | \$ 1,844,838 | |
| College support | 43,881 | - | 43,881 | - | 43,881 | |
| Salaries | 40,633 | 111,988 | 152,621 | 349,047 | 501,668 | |
| Payroll taxes and benefits | 5,547 | 21,839 | 27,386 | 63,655 | 91,041 | |
| Student activities | - | 1,343 | 1,343 | - | 1,343 | |
| Equipment and supplies | - | 1,530 | 1,530 | - | 1,530 | |
| Depreciation | - | 704,618 | 704,618 | 7,764 | 712,382 | |
| Insurance | - | 63,968 | 63,968 | 6,869 | 70,837 | |
| Contractual services | - | 14,818 | 14,818 | - | 14,818 | |
| Telephone | - | 2,461 | 2,461 | 1,470 | 3,931 | |
| Repairs and maintenance | - | 46,157 | 46,157 | - | 46,157 | |
| Utilities | - | 178,188 | 178,188 | - | 178,188 | |
| Ground rental | - | 57,701 | 57,701 | - | 57,701 | |
| Interest expense | - | 606,656 | 606,656 | - | 606,656 | |
| Printing and reproduction expense | - | - | - | 24,800 | 24,800 | |
| Bank fees and administrative expenses | - | - | - | 10,571 | 10,571 | |
| Rent | - | - | - | 12,600 | 12,600 | |
| Office supplies and postage | - | - | - | 10,631 | 10,631 | |
| Changes in gift annuities | - | - | - | 10,631 | 10,631 | |
| Professional fees | - | - | - | 57,558 | 57,558 | |
| Staff training | - | - | - | - | - | |
| Program development | - | - | - | 19,024 | 19,024 | |
| Technology | - | - | - | 4,761 | 4,761 | |
| Write-off of uncollectible pledge | - | - | - | 20,000 | 20,000 | |
| Miscellaneous | - | 361 | 361 | 1,989 | 2,350 | |
| Total Expenses | \$ 1,934,899 | \$ 1,811,628 | \$ 3,746,527 | \$ 601,370 | \$ 4,347,897 | |

NOTE 17 FUNCTIONAL EXPENSES (CONTINUED)

| | Program Activities | | | Support Activities | |
|--------------------------------------|--|-------------------------|--------------------------|---|---------------------|
| | Scholarships and College Support | Dormitory Operations | Total Program Expense | General and Administrative Expenses | Total |
| 2020 | | | | | |
| Scholarships and awards | \$ 2,650,418 | \$ - | \$ 2,650,418 | \$ - | \$ 2,650,418 |
| College support | 87,532 | - | 87,532 | - | 87,532 |
| Salaries | 40,633 | 105,389 | 146,022 | 345,912 | 491,934 |
| Payroll taxes and benefits | 5,499 | 20,118 | 25,617 | 63,224 | 88,841 |
| Student activities | - | 1,239 | 1,239 | - | 1,239 |
| Equipment and supplies | - | 228 | 228 | - | 228 |
| Depreciation | - | 704,617 | 704,617 | 8,330 | 712,947 |
| Insurance | - | 63,666 | 63,666 | 7,229 | 70,895 |
| Contractual services | - | 13,614 | 13,614 | - | 13,614 |
| Telephone | - | 2,472 | 2,472 | 1,558 | 4,030 |
| Repairs and maintenance | - | 45,039 | 45,039 | - | 45,039 |
| Utilities | - | 166,545 | 166,545 | - | 166,545 |
| Interest expense | - | 614,152 | 614,152 | - | 614,152 |
| Printing and reproduction costs | - | - | - | 20,827 | 20,827 |
| Bank fees and administrative expense | - | - | - | 10,380 | 10,380 |
| Rent | - | - | - | 12,600 | 12,600 |
| Office supplies and postage | - | - | - | 13,530 | 13,530 |
| Changes in gift annuities | - | - | - | 10,062 | 10,062 |
| Professional fees | - | - | - | 51,606 | 51,606 |
| Staff training | - | - | - | 75 | 75 |
| Program development | - | - | - | 23,661 | 23,661 |
| Technology | - | - | - | 4,171 | 4,171 |
| Miscellaneous | - | 182 | 182 | 2,361 | 2,543 |
| Total Expenses | <u>\$ 2,784,082</u> | <u>\$ 1,737,261</u> | <u>\$ 4,521,343</u> | <u>\$ 575,526</u> | <u>\$ 5,096,869</u> |

NOTE 18 LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limited their use, within one year of the consolidated statement of financial position date, are as follows:

| | 2021 | 2020 |
|------------------------------|------------------|------------------|
| Accounts receivable | 23,481 | 27,894 |
| Due from Shepherd University | 694 | 881 |
| | <u>\$ 24,175</u> | <u>\$ 28,775</u> |

NOTE 18 LIQUIDITY AND AVAILABILITY OF RESOURCES (CONTINUED)

The Foundation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Foundation has various sources of liquidity at its disposal, including accounts receivable and amounts due from Shepherd University. Total cash of \$153,085 and \$366,654 at June 30, 2021 and 2020, respectively, is excluded due to the fact that it represents debt service and property replacement reserves requires to be maintained under the Foundation's USDA loan agreement. Also cash in the amounts of \$4,069,420 and \$3,258,438 at June 30, 2021 and 2020, respectively, is excluded due to it being restricted for custodial liabilities and donor-restricted funds held at the Foundation. Accounts receivable in the amounts of \$0 and \$250 at June 30, 2021 and 2020, respectively, are excluded due to it being restricted related to donor-restricted funds held at the Foundation. Accrued interest receivable in the amounts of \$30,638 and \$32,152 at June 30, 2021 and 2020, respectively and investments in the amounts of \$34,712,717 and \$26,865,032 at June 30, 2021 and 2020, respectively, are excluded due to the fact that these funds are the restricted portion of the donor-restricted funds held at the Foundation. The remaining \$96,739 and \$100,744 at June 30, 2021 and 2020, respectively, of investments excluded represents an investment in real estate that is not readily marketable.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Foundation considered all expenditures related to its ongoing activity of providing assistance and support to the students, facilities and programs of Shepherd University, and the Supporting Organization considered all expenditures related to its ongoing activity of operating the Potomac Place residence hall, as well as the types of services undertaken to support these activities, to be general expenditures.

In addition to the financial assets available to meet general expenditures over the next 12 months, the Foundation operated with a Board approved budget and anticipates collection sufficient revenue to cover general expenditures.

NOTE 19 DEFICIT OF UNDESIGNATED NET ASSETS WITHOUT DONOR RESTRICTION

The deficit in undesignated net assets without donor restrictions of the Foundation is primarily the result of cumulative unrealized and realized losses not being allocated as a reduction to net assets with donor restriction in fiscal years prior to 2018, scholarship disbursements from funds in excess of the actual unrealized and realized investment earnings and operating expenses exceeding support and revenue without donor restriction. In addition, excess of expenses over revenues generated from the Potomac Place student facility project has contributed to the net assets without donor restriction deficit. In order to reduce the deficit and generate positive net assets without donor restriction, 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 net assets without donor restriction deficit was \$(3,453,406) and \$(2,834,798) for the years ended June 30, 2021 and 2020, respectively. Of this deficit \$(1,207,528) and \$(1,110,725) related to Shepherd University Foundation Inc. for the years ended June 30, 2021 and 2020 respectively and \$(2,245,878) and \$(1,724,073) related to the Shepherd University Foundation Supporting Organization for the years ended June 30, 2021 and 2020, respectively.

NOTE 20 PAYCHECK PROTECTION PROGRAM LOAN

In April 2020, the Foundation received a Paycheck Protection Program loan in the amount of \$70,138 through the Small Business Administration. Under the terms of the agreement, if the Foundation meets certain requirements of the loan program during the 24-week period following the receipt of the funds, all or a portion of the loan amount will be forgiven. Any unforgiven balance will accrue interest at a rate of 1%, payments of principal and interest will be required beginning in November 2020 and all outstanding balances are to be repaid in full by April 2022. As of June 30, 2020, the Foundation had expended the full amount of funding on allowable expenses and had met other program requirements, resulting in the full amount of the loan being eligible to be forgiven upon the filing of the required application. As a result, the proceeds from the loan program have been recorded as a conditional contribution, of which the Foundation met the underlying conditions, for the year ended June 30, 2020. The contribution has been reported as part of other revenue without donor restrictions on the statement of activities.

On July 14, 2021, the Small Business Administration notified the Foundation that they had met the compliance requirements of the program and officially forgave the entire \$70,138 outstanding balance of the loan.

NOTE 21 SUBSEQUENT EVENTS

The Foundation has evaluated events and transactions subsequent to June 30, 2021 through September 2, 2021, the date these financial statements were available to be issued. Based on the definitions and requirements of generally accepted accounting principles, management has identified an event that requires recognition or disclosure in the financial statements.

As disclosed in Note 20, on July 14, 2021, the Small Business Administration forgave the full outstanding balance of the Paycheck Protection Program loan in the amount of \$70,138.

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 Payroll | University's Proportionate Share as a percentage of Covered Payroll | University's Plan Fiduciary Net Position as a percentage of Total Pension Liability |
|------------------|---|----------------------------------|-----------------------------|---------------------------|------------------------------|---|---|
| June 30, 2014 | 0.01302% | \$ 449,352 | \$ 1,015,266 | \$ 1,464,618 | \$ 486,027 | 92.45412% | 65.95% |
| June 30, 2015 | 0.00945% | \$ 327,328 | \$ 692,199 | \$ 1,019,527 | \$ 375,501 | 87.17101% | 66.25% |
| June 30, 2016 | 0.00952% | \$ 391,112 | \$ 744,964 | \$ 1,136,076 | \$ 478,614 | 81.71763% | 61.42% |
| June 30, 2017 | 0.00773% | \$ 266,966 | \$ 590,374 | \$ 857,340 | \$ 271,237 | 98.42536% | 67.85% |
| June 30, 2018 | 0.00764% | \$ 238,603 | \$ 618,206 | \$ 856,809 | \$ 111,355 | 214.27237% | 71.20% |
| June 30, 2019 | 0.00845% | \$ 251,342 | \$ 606,786 | \$ 858,128 | \$ 118,659 | 211.84874% | 71.20% |
| June 30, 2020 | 0.00764% | \$ 245,983 | \$ 534,515 | \$ 780,498 | \$ 115,279 | 213.38000% | 71.20% |

Schedule of Employer Contributions of TRS

| Fiscal Year End | Actuarially Determined Contribution | Actual Contribution | Contribution Deficiency (Excess) | Covered Payroll | Actual Contributions as a percentage of Covered Payroll |
|-----------------|-------------------------------------|---------------------|----------------------------------|-----------------|---|
| June 30, 2014 | \$ 59,257 | \$ 59,998 | \$ (741) | \$ 486,027 | 12.34458% |
| June 30, 2015 | \$ 42,953 | \$ 42,953 | \$ (0) | \$ 375,501 | 11.43885% |
| June 30, 2016 | \$ 36,894 | \$ 36,894 | \$ - | \$ 478,614 | 7.70851% |
| June 30, 2017 | \$ 31,988 | \$ 34,322 | \$ (2,334) | \$ 271,237 | 12.65388% |
| June 30, 2018 | \$ 33,914 | \$ 35,214 | \$ (1,300) | \$ 111,355 | 31.62319% |
| June 30, 2019 | \$ 36,597 | \$ 36,597 | \$ - | \$ 118,659 | 30.84216% |
| June 30, 2020 | \$ 31,598 | \$ 31,751 | \$ (153) | \$ 115,279 | 27.54274% |
| June 30, 2021 | \$ 13,222 | \$ 13,222 | \$ - | \$ 90,997 | 14.53015% |

These schedules are intended to show information for ten years and are updated as information becomes available.

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 Employee Payroll | University's Proportionate Share as a Percentage of Covered Employee 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% |
| June 30, 2018 | 0.36628143% | \$ 8,255,790 | \$ 1,706,251 | \$ 9,962,041 | \$ 7,890,987 | 104.62% | 30.98% |
| June 30, 2019 | 0.37694305% | \$ 6,253,984 | \$ 1,279,844 | \$ 7,533,828 | \$ 7,257,036 | 86.18% | 39.69% |
| June 30, 2020 | 0.36645490% | \$ 1,618,601 | \$ 357,898 | \$ 1,976,499 | \$ 6,275,250 | 25.79% | 73.49% |

Schedule of Contributions

| Fiscal Year End | Actuarially Determined Contribution | Actual Contribution | Contribution Deficiency (Excess) | Covered Employee Payroll | Actual Contributions as a Percentage of Covered Employee Payroll |
|-----------------|-------------------------------------|---------------------|----------------------------------|--------------------------|--|
| June 30, 2017 | \$ 752,336 | \$ 752,336 | \$ - | \$ 8,054,749 | 9.34% |
| June 30, 2018 | \$ 786,351 | \$ 798,039 | \$ (11,688) | \$ 7,890,987 | 10.11% |
| June 30, 2019 | \$ 776,609 | \$ 775,781 | \$ 828 | \$ 7,257,036 | 10.69% |
| June 30, 2020 | \$ 708,314 | \$ 701,898 | \$ 6,416 | \$ 6,275,250 | 11.19% |
| June 30, 2021 | \$ 653,182 | \$ 653,182 | \$ - | \$ 6,275,250 | 10.41% |

These schedules are intended to show information for ten years and are updated as information becomes available.

Notes to Required Supplementary Information

For the Years Ended June 30, 2021 and 2020

Change of assumptions

In the June 30, 2020 actuarial valuation, there were significant changes in capped subsidy rates, per capita costs, and trend rates. The key reason is due to significant decreases in the Medicare Advantage prescription drug (MAPD) per member per month rates and the resulting decrease in capped subsidy. 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.



**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, 2021, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 13, 2021. 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.

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) as a basis for designing 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

CliftonLarsonAllen LLP

Baltimore, Maryland
October 13, 2021