

Consolidated
Financial Report and
Uniform Guidance
Supplementary
Report

June 30,
2017

Shepherd University
Foundation, Inc. and
Supporting
Organization

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SHEPHERD UNIVERSITY FOUNDATION, INC.

Officers

<u>Name</u>	<u>Position</u>
Michael A. Smith '89	President
Christopher S. Colbert '95	Vice President
Allen L. Lueck '67	Secretary
Julia M. Connell '84	Treasurer
Monica W. Lingenfelter	Executive Vice President
Cathy M. Nevy	Comptroller

Board of Directors

<u>Name</u>	<u>Class</u>
Eric J. Lewis '95	2017
Julia M. Connell '84	2017
Allen L. Lueck '67	2017
Dr. David Wing	2017
Jerry P. Kerr '68	2017
Elizabeth S. Lowe '52	2017
Andrew D. Michael '75	2018
Robert H. Jensenius '72	2018
William E. Knode, Jr. '58	2018
Dr. Jason Best	2018
Michael A. Smith '89	2018
Kenneth J. Boone '76	2018
Christopher S. Colbert '95	2019
Timothy B. McShea '80	2019
Brian K. Jackson '87	2019
John F. Beatty	2019
Kenneth E. Harbaugh	2019
Stephen G. Skinner	2019
Robert H. Chuey, II '91	2019
Gina M. Walters '10	2020
J. David Rickard '56	2020
Mary Elizabeth Oates	2020
W. Gregory Snellings '91	2020
Dr. Heidi M. Hanrahan	2020
Tony W. Price '93	2020
Karl L. Wolf '70	2020

Directors at Large

Mary J. C. Hendrix '74
Monica W. Lingenfelter
Wanda G. Smith
Sandra A. Sponaugle '95

Directors Emeriti

Dr. James A. Butcher
Dr. Jane Ikenberry-Dorrier '65
David T. Newlin '76



Smith Elliott Kearns & Company, LLC
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

480 N. Potomac Street ♦ Hagerstown, MD 21740 ♦ 301-733-5020

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Shepherd University Foundation, Inc. and Supporting Organization
Shepherdstown, West Virginia

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of the Shepherd University Foundation, Inc. and Supporting Organization (nonprofit organizations), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Shepherd University Foundation, Inc. and Supporting Organization as of June 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary statements of consolidating financial position, consolidating statement of activities and consolidating statement of cash flows are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The accompanying consolidated schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2017, on our consideration of Shepherd University Foundation, Inc. and Supporting Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Shepherd University Foundation Inc. and Supporting Organization's internal control over financial reporting and compliance.

Smith Elliott Keene & Company, LLC

Hagerstown, Maryland
August 31, 2017

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Consolidated Statements of Financial Position
June 30, 2017 and 2016

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Consolidated Statements of Activities
Years Ended June 30, 2017 and 2016

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Consolidated Statements of Activities
Years Ended June 30, 2017 and 2016

(Continued)

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Consolidated Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 2,881,916	\$ (1,167,823)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Net realized and unrealized (gains) losses on investments	(1,708,650)	1,330,336
Depreciation	7,084	6,509
Non-cash interest expense associated with debt issuance costs	359,367	21,485
Non-cash stock contributions received	(562,261)	(18,788)
Write-off of uncollectible pledges receivable	-	3,000
(Increase) decrease in pledges receivables, net of discount	(385,840)	116,773
(Increase) decrease in other receivables	(650)	5,949
Decrease in accrued interest receivable	11,810	531
(Increase) in interest in life estate	(16,997)	(16,453)
Increase (decrease) in accounts payable	(28,640)	24,575
Increase (decrease) in accrued payroll	(11,866)	3,218
(Decrease) in custodial liabilities	(411,399)	(437,656)
Net Cash Provided By (Used In) Operating Activities	<u>133,874</u>	<u>(128,344)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	4,334,890	8,363,878
Purchases of investments	(3,569,364)	(7,996,776)
Gift annuity payments	(12,837)	(11,922)
Purchases of equipment	(2,002)	(3,127)
Payments for construction in progress	<u>(15,350,212)</u>	<u>(913,430)</u>
Net Cash (Used In) Investing Activities	<u>(14,599,525)</u>	<u>(561,377)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of loan origination costs	-	(589,063)
Proceeds from loan borrowings	<u>-</u>	<u>22,385,000</u>
Net Cash Provided By Financing Activities	<u>-</u>	<u>21,795,937</u>
Net Increase (Decrease) In Cash and Cash Equivalents	(14,465,651)	21,106,216
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>23,098,204</u>	<u>1,991,988</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 8,632,553</u>	<u>\$ 23,098,204</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the years ended June 30, 2017 and 2016 for interest was \$175,172 and \$0, respectively. All interest payments were capitalized as construction in progress.

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING TRANSACTIONS

During the year ended June 30, 2017, the Foundation had increases to accounts payable, retainages payable and capitalized accrued interest of \$726,138, \$751,040 and \$98,129, respectively, that related to construction in progress. During the year ended June 30, 2016, the Foundation had increases to accounts payable, retainages payable and capitalized accrued interest of \$1,017,608, \$54,895 and \$15,619, respectively, that related to construction in progress.

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Principles

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

Organization and Nature of Operations

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

Basis of Accounting

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

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

Unrestricted Net Assets

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

Temporarily Restricted Net Assets

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Permanently Restricted Net Assets

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

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

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

Investments

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

Pledges Receivable

Pledges are recorded as revenue when received. It is the Foundation's policy to evaluate individual pledges annually to determine collectability. Pledges deemed 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 \$300 or more and having a useful life greater than one year are capitalized. Assets no longer in use are retired. Maintenance and repairs are expensed as incurred. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets as follows:

	Years
Equipment	3-7
Building and improvements	40

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loan Origination Costs

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

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

Advertising

Advertising costs are expensed as incurred and amounted to \$3,890 and \$4,785 for the years ended June 30, 2017 and 2016, respectively.

Contributions

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

Functional Allocation of Expenses

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

Use of Estimates in the Preparation of Consolidated Financial Statements

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax Exempt Status

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

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

Concentrations of Credit Risk

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

Statement of Cash Flows

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

Risks

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

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

Reclassifications

Certain reclassifications of amounts previously reported have been made in the accompanying financial statements in order to make them conform to the classifications used for the year ended June 30, 2017.

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

NOTE 2 PLEDGES RECEIVABLE

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

Pledges receivable as of June 30, 2017 and 2016 consist of temporarily and permanently restricted net assets. These unconditional promises to give are scheduled to be received by the Foundation over the next several years, and are considered to be fully collectible.

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

NOTE 3 INVESTMENTS

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

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

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

NOTE 3 INVESTMENTS (CONTINUED)

At June 30, 2017 and 2016, there was \$1,575,313 and \$1,379,005, respectively, of cash and cash equivalents held in the brokerage accounts available to be invested by the Foundation.

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

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

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

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

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

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

NOTE 4 INTEREST IN LIFE ESTATE

During the year ended June 30, 2013, a donor established a life estate giving a remainder interest in a residential property to the Foundation, while retaining a life interest in the property. A life estate agreement is an arrangement whereby the donor transfers property to a charity while retaining the right to occupy and otherwise enjoy the full use of the property for the donor's choice of a term of years or the lifetime of the donor. The present commitment value of the property is based on the individual's life expectancy, which provides for a contribution value based upon the fact the donor is making a present commitment to a future charitable gift. The value of the property is based upon a third-party appraisal value at the date of transfer of \$447,500, discounted by the present value of the fair market rental value of the property at the time of the transfer of \$1,700 per month. The present value was calculated based upon the life expectancy of the donor as determined by the Social Security Life Expectancy tables and a 3.25% rate of return per the American Council on Gift Annuities. Assets held in life estates at June 30, 2017 and 2016 were \$352,032 and \$335,035, respectively, and are reported at the calculated present value on the Foundation's consolidated statement of financial position. Changes in the present value of the life estate will be reflected as changes in permanently restricted net assets in the Foundation's consolidated statement of activities.

NOTE 5 STUDENT HOUSING FACILITY PROJECT AND CONSTRUCTION IN PROGRESS

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

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

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

NOTE 6 EQUIPMENT

Equipment consists of the following:

	2017	2016
Office equipment (at cost)	\$ 18,669	\$ 18,970
Accumulated depreciation	<u>(13,614)</u>	<u>(12,838)</u>
Net Book Value	<u>\$ 5,055</u>	<u>\$ 6,132</u>

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

NOTE 7 CUSTODIAL LIABILITIES

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

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

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Notes to Consolidated Financial Statements
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NOTE 8 GIFT ANNUITIES

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

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

NOTE 9 LOANS PAYABLE

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

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

	2017	2016
WVEDA Series 2016A Bond	\$ 22,035,000	\$ 22,035,000
WVEDA Series 2016B Taxable Bond	350,000	350,000
	<u>22,385,000</u>	<u>22,385,000</u>
Less loan costs, net of accumulated amortization of \$380,852 and \$21,485	<u>(208,211)</u>	<u>(567,578)</u>
	<u>\$ 22,176,789</u>	<u>\$ 21,817,422</u>

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Notes to Consolidated Financial Statements
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NOTE 9 LOANS PAYABLE (CONTINUED)

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

NOTE 10 EMPLOYEE PENSION PLAN

The Foundation participates in the TIAA - CREF retirement plan. The Foundation contributes to the plan based on a dollar for dollar match of the contributions of full time employees up to 6%. The cost recognized during the years ended June 30, 2017 and 2016 was \$13,959 and \$10,002, respectively.

NOTE 11 CONDITIONAL PROMISES TO GIVE

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

NOTE 12 RELATED PARTY

The Foundation is a component unit of Shepherd University (University). The Foundation utilizes space owned by the University but does not pay rent. In-kind revenue and expense of \$12,600 has been recorded for the use of this space for the years ended June 30, 2017 and 2016, respectively.

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

NOTE 13 FAIR VALUE MEASUREMENTS

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

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

NOTE 13 FAIR VALUE MEASUREMENTS (CONTINUED)

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

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

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Notes to Consolidated Financial Statements
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NOTE 13 FAIR VALUE MEASUREMENTS (CONTINUED)

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2016				
Pledges receivable	\$ 3,198,673	\$ -	\$ -	\$ 3,198,673
Government securities				
US Treasuries	1,442,955	1,442,955	-	-
Agency Securities	458,949	-	458,949	-
Municipal Bonds	104,862	-	104,862	-
Mortgage Pools	283,584	-	283,584	-
Corporate Bonds	1,837,558	-	1,837,558	-
Mutual funds				
US Large Cap	2,627,463	2,627,463	-	-
US Small and Mid-Cap	2,192,162	2,192,162	-	-
International Equity	2,445,613	2,445,613	-	-
International Fixed Income	679,410	679,410	-	-
High-Yield Bond	304,883	304,883	-	-
REITs	604,750	604,750	-	-
Commodities	374,857	374,857	-	-
Equity Energy	236,971	236,971	-	-
Hedged Equity	1,586,680	1,586,680	-	-
Master Limited Partnerships	882,155	882,155	-	-
Diversified Alternatives	2,091,381	864,152	-	1,227,229
Managed Futures	806,342	806,342	-	-
Stocks				
US Small and Mid-Cap	909,927	909,927	-	-
International Equity	757,430	757,430	-	-
	<u>\$ 23,826,605</u>	<u>\$ 16,715,750</u>	<u>\$ 2,684,953</u>	<u>\$ 4,425,902</u>

The fair values of Shepherd University Foundation's assets are measured using different techniques. The fair value for pledges receivable is determined by calculating the present value of the pledges expected to be received, using a discount rate of 6%. The fair value measurement for investments is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data (Level 2). In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the hierarchy. The fair value measurement of the Foundation's Level 3 investments above have been determined based on the net asset values of the underlying fund investments.

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

NOTE 13 FAIR VALUE MEASUREMENTS (CONTINUED)

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

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

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	June 30, 2017			
	Pledges Receivable	SkyBridge Fund	Ironwood Fund	Total
Fair Value as of July 1, 2016	\$ 3,198,673	\$ 367,139	\$ 860,090	\$ 4,425,902
New pledges	902,500	-	-	902,500
Payments received	(601,937)	-	-	(601,937)
Change in valuation	85,277	-	-	85,277
Purchase of funds	-	5,573	13,246	18,819
Sale of funds	-	(389,990)	-	(389,990)
Realized (loss)	-	(23,583)	-	(23,583)
Unrealized gain	-	40,861	48,938	89,799
Fair Value as of June 30, 2017	<u>\$ 3,584,513</u>	<u>\$ -</u>	<u>\$ 922,274</u>	<u>\$ 4,506,787</u>

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	June 30, 2016			
	Pledges Receivable	SkyBridge Fund	Ironwood Fund	Total
Fair Value as of July 1, 2015	\$ 3,318,446	\$ -	\$ 886,706	\$ 4,205,152
Pledges written off	(3,000)	-	-	(3,000)
Payments received	(297,526)	-	-	(297,526)
Change in valuation	180,753	-	-	180,753
Purchase of funds	-	408,000	22,774	430,774
Unrealized (loss)	-	(40,861)	(49,390)	(90,251)
Fair Value as of June 30, 2016	<u>\$ 3,198,673</u>	<u>\$ 367,139</u>	<u>\$ 860,090</u>	<u>\$ 4,425,902</u>

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Notes to Consolidated Financial Statements
June 30, 2017 and 2016

NOTE 14 ENDOWMENTS

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

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

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

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

The endowments are invested consistent with an investment policy statement that is monitored by the Foundation's Directors. To satisfy the long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Funds in the endowment are primarily invested in U.S. Government Securities and managed equity funds with several investment managers using an investment philosophy that maintains equities in the range of 77% to 87% of the total fund, real estate in the range of 0% to 9%, commodities in the range of 3% to 13%, fixed income securities in the range of 12% to 22%, and cash in the range of 0% to 6%.

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Notes to Consolidated Financial Statements
June 30, 2017 AND 2016

NOTE 14 ENDOWMENTS (CONTINUED)

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

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

Endowment Net Assets at July 1, 2015	\$ 24,537,466
Investment income	25,748
Contributions	693,774
Transfers	<u>(24,239)</u>
Endowment Net Assets at June 30, 2016	\$ 25,232,749
Investment income	21,689
Contributions	688,224
Transfers	<u>4,612</u>
Endowment Net Assets at June 30, 2017	<u>\$ 25,947,274</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Foundation to retain as a fund of perpetual duration. The Foundation's accounting records do not contain the information necessary to determine the portion of the unrestricted net asset deficit that is attributable to endowment funds and the balance of deficiencies of this nature was not able to be determined as of June 30, 2017 and 2016.

NOTE 15 UNRESTRICTED NET ASSET DEFICIT

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Notes to Consolidated Financial Statements
June 30, 2017 AND 2016

NOTE 16 SUBSEQUENT EVENTS

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Consolidating Statement of Financial Position
June 30, 2017

	Shepherd University Foundation Inc.	Shepherd University Foundation Supporting Organization	Eliminations	Shepherd University Foundation and Supporting Organization
ASSETS				
Cash and cash equivalents	\$ 3,093,205	\$ 5,539,348	\$ -	\$ 8,632,553
Pledges receivable, net of present value adjustment	3,584,513	-	-	3,584,513
Other receivables	837	-	-	837
Accrued interest receivable	21,019	-	-	21,019
Prepaid expenses	1,582	-	-	1,582
Investments	23,025,064	-	-	23,025,064
Interest in life estate	352,032	-	-	352,032
Construction in progress	-	18,927,071	-	18,927,071
Equipment, net	5,055	-	-	5,055
TOTAL ASSETS	\$ 30,083,307	\$ 24,466,419	\$ -	\$ 54,549,726
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable	\$ 3,257	\$ 1,743,746	\$ -	\$ 1,747,003
Retainages payable	-	805,935	-	805,935
Accrued interest	-	113,748	-	113,748
Custodial liabilities	1,163,036	-	-	1,163,036
Gift annuities payable	122,146	-	-	122,146
Loans payable, net	-	22,176,789	-	22,176,789
Total Liabilities	1,288,439	24,840,218	-	26,128,657
Net Assets				
Unrestricted (deficit)	(5,856,362)	(373,799)	-	(6,230,161)
Temporarily restricted	8,703,956	-	-	8,703,956
Permanently restricted	25,947,274	-	-	25,947,274
Total Net Assets	28,794,868	(373,799)	-	28,421,069
TOTAL LIABILITIES AND NET ASSETS	\$ 30,083,307	\$ 24,466,419	\$ -	\$ 54,549,726

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Consolidating Statement of Financial Position
June 30, 2016

	Shepherd University Foundation Inc.	Shepherd University Foundation Supporting Organization	Eliminations	Shepherd University Foundation and Supporting Organization
ASSETS				
Cash and cash equivalents	\$ 2,239,681	\$ 20,858,523	\$ -	\$ 23,098,204
Pledges receivable, net of present value adjustment	3,198,673	-	-	3,198,673
Other receivables	187	-	-	187
Accrued interest receivable	32,829	-	-	32,829
Prepaid expenses	1,582	-	-	1,582
Investments	21,523,684	-	-	21,523,684
Interest in life estate	335,035	-	-	335,035
Construction in progress	-	2,001,552	-	2,001,552
Equipment, net	6,132	-	-	6,132
TOTAL ASSETS	\$ 27,337,803	\$ 22,860,075	\$ -	\$ 50,197,878
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable	\$ 31,897	\$ 1,017,608	\$ -	\$ 1,049,505
Retainages payable	-	54,895	-	54,895
Accrued payroll	11,866	-	-	11,866
Accrued interest	-	15,619	-	15,619
Custodial liabilities	1,574,435	-	-	1,574,435
Gift annuities payable	134,983	-	-	134,983
Loans payable, net	-	21,817,422	-	21,817,422
Total Liabilities	1,753,181	22,905,544	-	24,658,725
Net Assets				
Unrestricted (deficit)	(6,727,512)	(45,469)	-	(6,772,981)
Temporarily restricted	7,079,385	-	-	7,079,385
Permanently restricted	25,232,749	-	-	25,232,749
Total Net Assets	25,584,622	(45,469)	-	25,539,153
TOTAL LIABILITIES AND NET ASSETS	\$ 27,337,803	\$ 22,860,075	\$ -	\$ 50,197,878

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Consolidating Statement of Activity
Year Ended June 30, 2017

	Shepherd University Foundation Inc.	Shepherd University Foundation Supporting Organization	Eliminations	Shepherd University Foundation and Supporting Organization
CHANGES IN UNRESTRICTED NET ASSETS				
SUPPORT AND REVENUE				
Other revenue	\$ 26,720	\$ -	\$ -	\$ 26,720
Interest and dividends	-	47,161	-	47,161
Net realized and unrealized gains on investments	1,594,140	-	-	1,594,140
Transfers	(110,400)	-	-	(110,400)
Net assets released from restrictions	1,864,385	-	-	1,864,385
	<u>3,374,845</u>	<u>47,161</u>	<u>-</u>	<u>3,422,006</u>
Total Revenue and Other Support	<u>3,374,845</u>	<u>47,161</u>	<u>-</u>	<u>3,422,006</u>
EXPENSES				
Program Services				
Scholarships and awards	1,757,190	-	-	1,757,190
College support	107,195	-	-	107,195
General and Administrative				
Salaries	344,110	-	-	344,110
Investment management fees	104,369	-	-	104,369
Printing and reproduction costs	28,694	-	-	28,694
Payroll taxes and benefits	57,551	-	-	57,551
Depreciation	7,084	-	-	7,084
Interest	-	359,367	-	359,367
Administrative expense	2,077	25	-	2,102
Rent	12,600	-	-	12,600
Office supplies and postage	7,772	182	-	7,954
Insurance	6,283	4,964	-	11,247
Changes in gift annuities	9,024	-	-	9,024
Professional fees	21,625	10,953	-	32,578
Staff training	150	-	-	150
Program development	30,744	-	-	30,744
Telephone	2,241	-	-	2,241
Technology	3,635	-	-	3,635
Miscellaneous	1,351	-	-	1,351
	<u>2,503,695</u>	<u>375,491</u>	<u>-</u>	<u>2,879,186</u>
Total Expenses	<u>2,503,695</u>	<u>375,491</u>	<u>-</u>	<u>2,879,186</u>
Change In Unrestricted Net Assets	<u>\$ 871,150</u>	<u>\$ (328,330)</u>	<u>\$ -</u>	<u>\$ 542,820</u>

	Shepherd University Foundation Inc.	Shepherd University Foundation Supporting Organization	Eliminations	Shepherd University Foundation and Supporting Organization
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS SUPPORT AND REVENUE				
Cash contributions	\$ 2,194,774	\$ -	\$ -	\$ 2,194,774
Stock contributions	464,310	-	-	464,310
Other non-cash contributions	75,813	-	-	75,813
Other revenue	27,553	-	-	27,553
Interest and dividends	506,208	-	-	506,208
Net realized and unrealized gains on investments	114,510	-	-	114,510
Transfers	105,788	-	-	105,788
Net assets released from restrictions	(1,864,385)	-	-	(1,864,385)
Change in Temporarily Restricted Net Assets	<u>1,624,571</u>	<u>-</u>	<u>-</u>	<u>1,624,571</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS SUPPORT AND REVENUE				
Cash contributions	573,276	-	-	573,276
Stock contributions	97,951	-	-	97,951
Other non-cash contributions	16,997	-	-	16,997
Interest and dividends	21,689	-	-	21,689
Transfers	4,612	-	-	4,612
Change In Permanently Restricted Net Assets	<u>714,525</u>	<u>-</u>	<u>-</u>	<u>714,525</u>
Increase (Decrease) In Net Assets	<u>3,210,246</u>	<u>(328,330)</u>	<u>-</u>	<u>2,881,916</u>
NET ASSETS, BEGINNING OF YEAR	<u>25,584,622</u>	<u>(45,469)</u>	<u>-</u>	<u>25,539,153</u>
NET ASSETS, END OF YEAR	<u>\$ 28,794,868</u>	<u>\$ (373,799)</u>	<u>\$ -</u>	<u>\$ 28,421,069</u>

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Consolidating Statement of Activity
Year Ended June 30, 2016

	Shepherd University Foundation Inc.	Shepherd University Foundation Supporting Organization	Eliminations	Shepherd University Foundation and Supporting Organization
CHANGES IN UNRESTRICTED NET ASSETS				
SUPPORT AND REVENUE				
Other revenue	\$ 23,311	\$ -	\$ -	\$ 23,311
Net realized and unrealized (losses) on investments	(1,472,419)	-	-	(1,472,419)
Transfers	(52,414)	-	-	(52,414)
Net assets released from restrictions	1,585,938	-	-	1,585,938
	<u>84,416</u>	<u>-</u>	<u>-</u>	<u>84,416</u>
Total Revenue and Other Support	<u>84,416</u>	<u>-</u>	<u>-</u>	<u>84,416</u>
EXPENSES				
Program Services				
Scholarships and awards	1,509,129	-	-	1,509,129
College support	76,809	-	-	76,809
General and Administrative				
Salaries	333,748	-	-	333,748
Investment management fees	127,948	-	-	127,948
Printing and reproduction costs	30,593	-	-	30,593
Payroll taxes and benefits	51,440	-	-	51,440
Depreciation	6,509	-	-	6,509
Interest	-	21,485	-	21,485
Administrative expense	2,090	72	-	2,162
Rent	12,600	-	-	12,600
Office supplies and postage	9,798	-	-	9,798
Insurance	5,824	675	-	6,499
Changes in gift annuities	9,935	-	-	9,935
Professional fees	28,416	23,237	-	51,653
Staff training	263	-	-	263
Program development	30,199	-	-	30,199
Telephone	2,621	-	-	2,621
Technology	2,407	-	-	2,407
Bad debt expense	3,000	-	-	3,000
Miscellaneous	727	-	-	727
	<u>2,244,056</u>	<u>45,469</u>	<u>-</u>	<u>2,289,525</u>
Total Expenses	<u>2,244,056</u>	<u>45,469</u>	<u>-</u>	<u>2,289,525</u>
Change In Unrestricted Net Assets	<u>\$ (2,159,640)</u>	<u>\$ (45,469)</u>	<u>\$ -</u>	<u>\$ (2,205,109)</u>

	Shepherd University Foundation Inc.	Shepherd University Foundation Supporting Organization	Eliminations	Shepherd University Foundation and Supporting Organization
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS SUPPORT AND REVENUE				
Cash contributions	\$ 1,092,075	\$ -	\$ -	\$ 1,092,075
Stock contributions	12,177	-	-	12,177
Other non-cash contributions	6,125	-	-	6,125
Other revenue	10,613	-	-	10,613
Interest and dividends	588,215	-	-	588,215
Net realized and unrealized gains on investments	142,083	-	-	142,083
Transfers	76,653	-	-	76,653
Net assets released from restrictions	<u>(1,585,938)</u>	<u>-</u>	<u>-</u>	<u>(1,585,938)</u>
Change in Temporarily Restricted Net Assets	<u>342,003</u>	<u>-</u>	<u>-</u>	<u>342,003</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS SUPPORT AND REVENUE				
Cash contributions	670,709	-	-	670,709
Stock contributions	6,611	-	-	6,611
Other non-cash contributions	16,454	-	-	16,454
Interest and dividends	25,748	-	-	25,748
Transfers	<u>(24,239)</u>	<u>-</u>	<u>-</u>	<u>(24,239)</u>
Change In Permanently Restricted Net Assets	<u>695,283</u>	<u>-</u>	<u>-</u>	<u>695,283</u>
Increase (Decrease) In Net Assets	<u>(1,122,354)</u>	<u>(45,469)</u>	<u>-</u>	<u>(1,167,823)</u>
NET ASSETS, BEGINNING OF YEAR	<u>26,706,976</u>	<u>-</u>	<u>-</u>	<u>26,706,976</u>
NET ASSETS, END OF YEAR	<u>\$ 25,584,622</u>	<u>\$ (45,469)</u>	<u>\$ -</u>	<u>\$ 25,539,153</u>

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Consolidating Statement of Cash Flows
Year Ended June 30, 2017

	Shepherd University Foundation Inc.	Shepherd University Foundation Supporting Organization	Eliminations	Shepherd University Foundation and Supporting Organization
CASH FLOWS FROM OPERATING ACTIVITIES				
Increase (decrease) in net assets	\$ 3,210,246	\$ (328,330)	\$ -	\$ 2,881,916
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:				
Net realized and unrealized (gains) on investments	(1,708,650)	-	-	(1,708,650)
Depreciation	7,084	-	-	7,084
Non-cash interest expense associated with debt issuance costs	-	359,367	-	359,367
Non-cash stock contributions received	(562,261)	-	-	(562,261)
(Increase) in pledges receivables, net of discount	(385,840)	-	-	(385,840)
(Increase) in other receivables	(650)	-	-	(650)
Decrease in accrued interest receivable	11,810	-	-	11,810
(Increase) in interest in life estate	(16,997)	-	-	(16,997)
(Decrease) in accounts payable	(28,640)	-	-	(28,640)
(Decrease) in accrued payroll	(11,866)	-	-	(11,866)
(Decrease) in custodial liabilities	(411,399)	-	-	(411,399)
Net Cash Provided By Operating Activities	<u>102,837</u>	<u>31,037</u>	<u>-</u>	<u>133,874</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of investments	4,334,890	-	-	4,334,890
Purchases of investments	(3,569,364)	-	-	(3,569,364)
Gift annuity payments	(12,837)	-	-	(12,837)
Purchases of equipment	(2,002)	-	-	(2,002)
Payments for construction in progress	<u>-</u>	<u>(15,350,212)</u>	<u>-</u>	<u>(15,350,212)</u>
Net Cash Provided By (Used In) Investing Activities	<u>750,687</u>	<u>(15,350,212)</u>	<u>-</u>	<u>(14,599,525)</u>
Net Increase (Decrease) In Cash and Cash Equivalents	853,524	(15,319,175)	-	(14,465,651)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,239,681</u>	<u>20,858,523</u>	<u>-</u>	<u>23,098,204</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,093,205</u>	<u>\$ 5,539,348</u>	<u>\$ -</u>	<u>\$ 8,632,553</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the year for interest was \$175,172, all of which was capitalized as construction in progress.

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING TRANSACTIONS

During the year ended June 30, 2017, Shepherd University Foundation Supporting Organization had increases to accounts payable, retainages payable and capitalized accrued interest of \$726,138, \$751,040 and \$98,129, respectively, that related to construction in progress.

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Consolidating Statement of Cash Flows
Year Ended June 30, 2016

	Shepherd University Foundation Inc.	Shepherd University Foundation Supporting Organization	Eliminations	Shepherd University Foundation and Supporting Organization
CASH FLOWS FROM OPERATING ACTIVITIES				
(Decrease) in net assets	\$ (1,122,354)	\$ (45,469)	\$ -	\$ (1,167,823)
Adjustments to reconcile (decrease) in net assets to net cash (used in) operating activities:				
Net realized and unrealized losses on investments	1,330,336	-	-	1,330,336
Depreciation	6,509	-	-	6,509
Non-cash interest expense associated with debt issuance costs	-	21,485	-	21,485
Non-cash stock contributions received	(18,788)	-	-	(18,788)
Write-off of uncollectible pledges receivable	3,000	-	-	3,000
Decrease in pledges receivables, net of discount	116,773	-	-	116,773
Decrease in other receivables	5,949	-	-	5,949
Decrease in accrued interest receivable	531	-	-	531
(Increase) in interest in life estate	(16,453)	-	-	(16,453)
Increase in accounts payable	24,575	-	-	24,575
Increase in accrued payroll	3,218	-	-	3,218
(Decrease) in custodial liabilities	(437,656)	-	-	(437,656)
Net Cash (Used In) Operating Activities	<u>(104,360)</u>	<u>(23,984)</u>	<u>-</u>	<u>(128,344)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of investments	8,363,878	-	-	8,363,878
Purchases of investments	(7,996,776)	-	-	(7,996,776)
Gift annuity payments	(11,922)	-	-	(11,922)
Purchases of equipment	(3,127)	-	-	(3,127)
Payments for construction in progress	-	(913,430)	-	(913,430)
Net Cash Provided By (Used In) Investing Activities	<u>352,053</u>	<u>(913,430)</u>	<u>-</u>	<u>(561,377)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Payment of loan origination costs	-	(589,063)	-	(589,063)
Proceeds from loan borrowings	-	22,385,000	-	22,385,000
Net Cash Provided By Financing Activities	<u>-</u>	<u>21,795,937</u>	<u>-</u>	<u>21,795,937</u>
Net Increase In Cash and Cash Equivalents	247,693	20,858,523	-	21,106,216
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,991,988</u>	<u>-</u>	<u>-</u>	<u>1,991,988</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,239,681</u>	<u>\$ 20,858,523</u>	<u>\$ -</u>	<u>\$ 23,098,204</u>

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING TRANSACTIONS

During the year ended June 30, 2016, Shepherd University Foundation Supporting Organization had increases to accounts payable, retainages payable and capitalized accrued interest of \$1,017,608, \$54,895 and \$15,619, respectively, that related to construction in progress.



Smith Elliott Kearns & Company, LLC
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

480 N. Potomac Street ♦ Hagerstown, MD 21740 ♦ 301-733-5020

**INDEPENDENT AUDITOR'S 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 Directors
Shepherd University Foundation, Inc. and Supporting Organization
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 consolidated financial statements of Shepherd University Foundation, Inc. and Supporting Organization (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated August 31, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audits 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 Shepherd University Foundation, Inc. and Supporting Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, 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 results of that testing, and not to provide an opinion on the effectiveness of the Foundation'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Smith Elliott Kears & Company, LLC

Hagerstown, Maryland
August 31, 2017



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Shepherd University Foundation, Inc. and Supporting Organization
Shepherdstown, West Virginia

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited Shepherd University Foundation, Inc. and Supporting Organization's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Shepherd University Foundation, Inc. and Supporting Organization's major federal programs for the year ended June 30, 2017. Shepherd University Foundation, Inc. and Supporting Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Shepherd University Foundation, Inc. and Supporting Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Shepherd University Foundation, Inc. and Supporting Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Shepherd University Foundation, Inc. and Supporting Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, Shepherd University Foundation, Inc. and Supporting Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of Shepherd University Foundation, Inc. and Supporting Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Shepherd University Foundation, Inc. and Supporting Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Shepherd University Foundation, Inc. and Supporting Organization's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Smith Elliott Kears & Company, LLC

Hagerstown, Maryland
August 31, 2017

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Consolidated Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor/Program Title	Federal CFDA Number	Grant Number	Passed Through to Subrecipients	Federal Expenditures
DEPARTMENT OF AGRICULTURE				
Direct Program:				
Community Facilities Loans and Grants	10.766	57-019-811054787	\$ -	\$ 19,532,075
Total Department of Agriculture			-	19,532,075
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ -	\$ 19,532,075

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Notes to Consolidated Schedule of Expenditures of Federal Awards
June 30, 2017

NOTE 1 BASIS OF PRESENTATION

The consolidated schedule of expenditures of federal awards (the Schedule) reflects the federal grant activity of Shepherd University Foundation Inc. and Supporting Organization under programs of the federal government for the year ended June 30, 2017. Shepherd University Foundation, Inc. has not received any funding under federal award programs and the expenditures included on the Schedule reflect only those of Shepherd University Foundation Supporting Organization. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Foundation, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Foundation.

NOTE 2 FISCAL PERIOD AUDITED

Single audit testing procedures were performed for program transactions occurring during the fiscal year ended June 30, 2017.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule includes all federal grants and loan programs of the Foundation which had expenditures or continuing loan compliance requirements during fiscal year 2017 on the accrual basis of accounting. This Schedule has been prepared in accordance with accounting principles generally accepted in the United States of America,

The Foundation charges only direct costs to federal award programs and has not negotiated an indirect cost rate with grantors or elected to use the 10% de minimus indirect cost rate as allowed under the Uniform Guidance.

NOTE 4 FEDERALLY FINANCED LOANS

The Foundation has received a loan commitment from the United States Department of Agriculture (USDA) under the Community Facilities Loans and Grants program (CFDA#10.766) to construct a student housing facility on the Shepherd University campus. Interim financing of the project during development and construction is being provided by bond anticipation notes issued by the West Virginia Economic Development Authority. Upon completion of construction, funding from the USDA Community Facilities Loan will be used to repay the West Virginia bond anticipation notes and permanently finance the project. In accordance with federal requirements applicable to the USDA Community Facilities Loan and Grants program, expenditures funded with interim financing that will be repaid with the federal loan are considered federal awards when expended and are included on the schedule of expenditures of federal awards.

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Notes to Consolidated Schedule of Expenditures of Federal Awards
June 30, 2017

NOTE 4 FEDERALLY FINANCED LOANS (CONTINUED)

A summary of the beginning loan program balance, current year expenditures and ending loan program balances related to the USDA Community Facilities Loans and Grants program commitment is as follows:

Loan balance at June 30, 2016	\$ 2,590,615
Borrowings during fiscal year 2017	<u>16,941,460</u>
Loan balance at June 30, 2017	<u>\$ 19,532,075</u>

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Schedule of Findings and Questioned Costs
June 30, 2017

SECTION I SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes X none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? _____ yes X no

Identification of major programs:

CFDA Number(s)

10.766

Name of Federal Program or Cluster

Community Facilities Loans and Grants

Dollar threshold used to distinguish between type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee? _____ yes X no

SECTION II FINANCIAL STATEMENT FINDINGS

There were no financial statement findings.

SECTION III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award findings or questioned costs.

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Summary Schedule of Prior Audit Findings
June 30, 2017

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

There were no prior year findings related to the financial statements.

FINDINGS RELATED TO FEDERAL AWARDS

FINDING 2016-001 Community Facilities Loans and Grants – CFDA #10.766
Grant #57-019-811054787; Grant Period – Federal Fiscal Year 2016

Condition

The Foundation entered into a management agreement with Shepherd University, a component unit of the State of West Virginia that assigned certain aspects of the loan award compliance requirements to the University. One of the responsibilities assigned by this agreement was the responsibility over the procurement of the services and goods related to the loan project. Based upon audit testing performed, the procurement policies manual used by Shepherd University did not contain the provisions as required by 2 CFR Section 200.320. In accordance with 2 CFR 200.317, Shepherd University, as a component unit of a state, must follow the same policies and procedures the State uses for procurements made with non-federal funds and the requirements of 2 CFR Section 200.320 do not apply to the University's procurements. However, the exemption of the requirement to the procurements made for the University does not apply to the University's procurements made on behalf of the Foundation, which is a non-state entity subject to the requirements of 2 CFR Section 200.320.

Current Status

Shepherd University is working with the State of West Virginia to update the procurement policies to comply with 2 CFR Section 200.320 for Foundation purchases. A proposed draft of the procurement policy to include the requirements of 2 CFR Section 200.320 has been prepared and is currently being utilized by Shepherd University procurement personnel. Shepherd University procurement personnel now flag any Foundation procurements and review them to ensure compliance with the requirements of 2 CFR Section 200.320.

FINDING 2016-002 Community Facilities Loans and Grants – CFDA #10.766
Grant #57-019-811054787; Grant Period – Federal Fiscal Year 2016

Condition

The Foundation entered into a management agreement with Shepherd University that assigned certain aspects of the loan award compliance requirements to the University. One of the responsibilities assigned by this agreement was the responsibility over the procurement of the services and goods related to the loan project. Based upon the audit testing performed on procurements made by the University on behalf of the Foundation, the University's policies and current procurement procedures utilized did not require individuals in charge of procurement to perform a verification that the vendor is not suspended or debarred from participating in a federal transaction.

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Summary Schedule of Prior Audit Findings
June 30, 2017

Current Status

Shepherd University is working with the State of West Virginia to update the procurement policies to include a requirement to check the Excluded Parties List System at www.sam.gov/portal/public/SAM to ensure prospective vendors are not suspended or debarred. A proposed draft of the procurement policy to include this requirement has been prepared and is being utilized by Shepherd University procurement personnel. Shepherd University personnel are now verifying that prospective vendors are not on the Excluded Parties List System and printing out the online verification screen and adding it to the procurement file.