

Consolidated
Financial Report and
Uniform Guidance
Supplementary
Report

June 30,
2018

Shepherd University
Foundation, Inc. and
Supporting
Organization

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SHEPHERD UNIVERSITY FOUNDATION, INC.

Officers

<u>Name</u>	<u>Position</u>
Christopher S. Colbert '95	President
Michael A. Smith '89	Vice President
Karl L. Wolf '70	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>
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
Tammy Gill	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
Eric J. Lewis '95	2021
Alfred L. Young '89	2021
Darren B. Iden '89	2021
Julia M. Connell '84	2021
Mary Kathryn Robinson	2021
Dr. Carol Plautz	2021

Directors Emeriti

Ramon A. Alvarez '62
Allen L. Lueck '67
Susan Mentzer-Blair '72
Jerry P. Kerr '68
Dr. James A. Butcher

Directors Emeriti

Dr. Jane Ikenberry-Dorrier '65
Elizabeth S. Lowe '52
David T. Newlin '76
Kenneth E. Harbaugh

Directors at Large

Mary J. C. Hendrix '74
Monica W. Lingenfelter
Cecelia Mason
Sandra A. Sponaugle '95



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

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, 2018 and 2017, 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, 2018 and 2017, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, for the years ended June 30, 2018 and 2017, the Foundation adopted new accounting guidance. The Foundation adopted Accounting Standards Update No. 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its equivalent)*. Our opinion is not modified with respect to this matter.

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 consolidating statements of financial position, activities and 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 September 5, 2018, 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.

Hagerstown, Maryland
September 5, 2018

Smith Elliott Kearns & Company, LLC

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Consolidated Statements of Financial Position
June 30, 2018 and 2017

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Consolidated Statements of Activities
Years Ended June 30, 2018 and 2017

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Consolidated Statements of Activities
Years Ended June 30, 2018 and 2017

(Continued)

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 39,471	\$ 2,881,916
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net realized and unrealized (gains) on investments	(804,715)	(1,708,650)
Depreciation	652,064	7,084
Non-cash interest expense associated with debt issuance costs	208,519	359,367
Non-cash stock contributions received	(113,000)	(562,261)
Write-off of uncollectible pledges receivable	1,000	-
(Increase) decrease in pledges receivables, net of discount	471,466	(385,840)
(Increase) in accounts receivable	(34,430)	(650)
(Increase) decrease in accrued interest receivable	(8,618)	11,810
(Increase) in prepaid expenses	(11,437)	-
(Increase) in interest in life estate	(17,557)	(16,997)
Increase (decrease) in accounts payable	13,358	(28,640)
Increase in net due to (due from) Shepherd University	997,744	-
Increase (decrease) in accrued interest payable	18,860	(11,866)
(Decrease) in custodial liabilities	(316,195)	(411,399)
Net Cash Provided By Operating Activities	<u>1,096,530</u>	<u>133,874</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	7,166,092	4,334,890
Purchases of investments	(6,786,103)	(3,569,364)
Gift annuity payments	(13,821)	(12,837)
Purchases of property and equipment	(4,841,361)	(2,002)
Payments for construction in progress	-	(15,350,212)
Net Cash (Used In) Investing Activities	<u>(4,475,193)</u>	<u>(14,599,525)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of loan origination costs	(26,890)	-
Proceeds from loan borrowings	21,892,000	-
Repayment of loan borrowings	(22,509,428)	-
Net Cash (Used In) Financing Activities	<u>(644,318)</u>	<u>-</u>
Net (Decrease) In Cash and Cash Equivalents	(4,022,981)	(14,465,651)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>8,632,553</u>	<u>23,098,204</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 4,609,572</u>	<u>\$ 8,632,553</u>
RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS TO THE STATEMENT OF FINANCIAL POSITION		
Cash and cash equivalents	\$ 2,015,700	\$ 797,439
Cash and cash equivalents - restricted	2,593,872	7,835,114
	<u>\$ 4,609,572</u>	<u>\$ 8,632,553</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the years ended June 30, 2018 and 2017 for interest was \$532,772 and \$175,172, respectively. Interest payments of \$22,750 and \$175,172 were capitalized as a component of the dormitory building construction costs in 2018 and 2017, respectively.		
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 which was subsequently completed during 2018.		

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Principles

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

Organization and Nature of Operations

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

Basis of Accounting

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

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

Unrestricted Net Assets

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

Temporarily Restricted Net Assets

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

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%.

Dormitory Revenue, Accounts Receivable and Deferred Revenues

Revenues related to the operation of the dormitory are recognized in the period the related housing and services are provided. To the extent applicable, deferred revenue is recognized for any advanced payments received from students and others prior to the period of the rental. Accounts receivable primarily represents amounts due for dormitory rentals that occurred prior to the financial statement date. Management determines an allowance for doubtful accounts by regularly evaluating the individual receivables and considering the student's financial condition and payment history. Receivables are written off when deemed uncollectible. As of June 30, 2018 and 2017, management feels all receivables will be collected and therefore, has not established an allowance for doubtful accounts.

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

	<u>Years</u>
Office equipment	3-7
Dormitory building and improvement:	40
Dormitory furniture and fixtures	5

Loan Origination Costs

The Foundation follows the provisions of Accounting Standards Update 2015-03, *Interest – Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03) that was issued by the Financial Accounting Standards Board (FASB) in April 2015. Under this accounting standard, the Foundation has presented all loan origination costs as a direct deduction from loans payable. Amortization of the loan costs is included as a component of interest expense.

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

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

Advertising

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

Contributions

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transfers

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

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

Functional Allocation of Expenses

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

Use of Estimates in the Preparation of Consolidated Financial Statements

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

Tax Exempt Status

The Internal Revenue Service has determined that the Shepherd University Foundation, Inc. and Shepherd University Foundation Supporting Organization are organizations described in Section 501(c)(3) of the Internal Revenue Code and are therefore exempt from federal income tax. Shepherd University Foundation, Inc. has also been classified as a public charity under Section 509(a)(1) of the Internal Revenue Code and Shepherd University Foundation Supporting Organization has been classified as a public charity under Section 509(a)(3) of the Internal Revenue Code.

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of Credit Risk

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

Statement of Cash Flows

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

Risks

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

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

Recent Accounting Pronouncement ASU 2015-07

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

Reclassifications

Certain reclassifications of amounts previously reported have been made in the accompanying financial statements in order to make them conform to the classifications used for the year ended June 30, 2018.

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 2 RESTRICTED CASH AND CASH EQUIVALENTS

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

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

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

NOTE 3 PLEDGES RECEIVABLE

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

Pledges receivable as of June 30, 2018 and 2017 consist of temporarily and permanently restricted net assets. These unconditional promises to give are scheduled to be received by the Foundation over the next several years and are considered to be fully collectible.

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 4 INVESTMENTS

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

Investment securities at June 30, 2018 and 2017 are composed of the following:

Description	Cost	Market
2018		
Certificates of deposit	\$ 684,628	\$ 684,628
Government securities	1,319,757	1,291,923
Corporate bonds and notes	1,487,575	1,424,281
Mutual funds	15,397,813	18,064,962
Stocks	<u>1,465,935</u>	<u>1,984,237</u>
Investment Securities	<u>\$ 20,355,708</u>	<u>\$ 23,450,031</u>
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>

At June 30, 2018 and 2017, there was \$1,942,285 and \$1,575,313, respectively, of cash and cash equivalents held in the brokerage accounts available to be invested by the Foundation.

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

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 4 INVESTMENTS (CONTINUED)

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

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

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

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

NOTE 5 INTEREST IN LIFE ESTATE

During the year ended June 30, 2013, a donor established a life estate giving a remainder interest in a residential property to the Foundation, while retaining a life interest in the property. A life estate agreement is an arrangement whereby the donor transfers property to a charity while retaining the right to occupy and otherwise enjoy the full use of the property for the donor's choice of a term of years or the lifetime of the donor. The present commitment value of the property is based on the individual's life expectancy, which provides for a contribution value based upon the fact the donor is making a present commitment to a future charitable gift. The value of the property is based upon a third-party appraisal value at the date of transfer of \$447,500, discounted by the present value of the fair market rental value of the property at the time of the transfer of \$1,700 per month. The present value was calculated based upon the life expectancy of the donor as determined by the Social Security Life Expectancy tables and a 3.25% rate of return per the American Council on Gift Annuities. Assets held in life estates at June 30, 2018 and 2017 were \$369,589 and \$352,032, respectively, and are reported at the calculated present value on the Foundation's consolidated statement of financial position. Changes in the present value of the life estate will be reflected as changes in permanently restricted net assets in the Foundation's consolidated statement of activities.

NOTE 6 STUDENT HOUSING FACILITY PROJECT

During 2016, the Shepherd University Foundation Supporting Organization began the design and construction of a new student housing facility on the Shepherd University campus. The Supporting Organization received interim financing for the project in the form of bond anticipation notes issued by the West Virginia Economic Development Authority. As disclosed in Note 10, the Supporting Organization refinanced the West Virginia Economic Development bond anticipation notes with a 40-year permanent rural development loan from the United States Department of Agriculture. The Supporting Organization owns the building and associated equipment and furnishings and has entered into a ground lease with Shepherd University. The ground lease began in June 2016 and will expire upon the repayment of all associated outstanding debt borrowed by the Supporting Organization. Upon the expiration of the lease, the building and associated equipment and furnishings will be transferred to Shepherd University. The ground lease agreement requires annual rental payments due 30 days after the receipt of the Supporting Organization's audited financial statements.

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 6 STUDENT HOUSING FACILITY PROJECT (CONTINUED)

Rental payments will equal the net available cash flow generated from the student housing facility project. Rent expense due to Shepherd University for the ground lease amounted to \$965,782 and \$0 for the years ended June 30, 2018 and 2017, respectively.

In June 2016, the Supporting Organization entered into a management agreement with Shepherd University. The management agreement appointed Shepherd University as the Supporting Organization's exclusive agent for the construction, operation, management and maintenance of the student housing facility project. No additional fees, outside of the ground lease payments, are payable to Shepherd University for these services.

Construction in progress reported on the consolidated statements of financial position at June 30, 2018 and 2017 of \$0 and \$18,927,071, respectively, represent costs incurred related to the construction of the student housing facility project and capitalized interest associated with the financing of the project during the construction period. No depreciation was recognized on these costs until the construction was completed and the building was placed into service in August 2017, at which point \$21,095,102 was capitalized.

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

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Notes to Consolidated Financial Statements

NOTE 7 PROPERTY AND EQUIPMENT

Equipment consists of the following:

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

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

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

NOTE 8 CUSTODIAL LIABILITIES

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

The gross receipts and disbursements for the custodial accounts, and the interest and gains on investments for the custodial accounts for the years ended June 30, 2018 and 2017 are as follows:

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 9 GIFT ANNUITIES

The Foundation has entered into several charitable gift annuity agreements with donors. Charitable gift annuities represent a gift of cash, investments or other assets from a donor. In return, the donor receives a fixed stream of income from the Foundation for the rest of their life. Upon the end of the donor's life, the Foundation takes ownership of the remainder of the gift. Gift annuities are recognized at fair value when received, and the corresponding liabilities are recorded using the present value of future cash flows expected to be paid to the donors and are being amortized over the expected lives of the donors.

The liability associated with gift annuities payable amounted to \$108,325 and \$122,146 for the years ended June 30, 2018 and 2017, respectively.

NOTE 10 LOANS PAYABLE

As disclosed in Note 6, in June 2016 the Shepherd University Foundation Supporting Organization obtained interim financing for their student housing facility project through bond anticipation notes issued by the West Virginia Economic Development Authority. The Shepherd University Foundation Supporting Organization borrowed \$22,035,000 under Series 2016A bond anticipation notes with an interest rate of 1.20% and \$350,000 of Series 2016B taxable bond anticipation notes with an interest rate of 2.45%. The loans matured on February 1, 2018 and required semi-annual interest only payments on August 1 and February 1 of each loan year. On February 1, 2018, all outstanding interest and principal was repaid using the financing provided by the USDA rural development loan noted below. The bond anticipation bonds were secured by a leasehold deed of trust on the student housing facility project, which was released upon repayment of the notes.

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

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Notes to Consolidated Financial Statements

NOTE 10 LOANS PAYABLE (CONTINUED)

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

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

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

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

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

NOTE 11 EMPLOYEE RETIREMENT PLAN

The Foundation participates in the TIAA - CREF retirement plan. The Foundation contributes to the plan based on a dollar for dollar match of the contributions of full time employees up to 6%. The cost recognized during the years ended June 30, 2018 and 2017 was \$13,606 and \$13,959, respectively.

NOTE 12 CONDITIONAL PROMISES TO GIVE

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 13 RELATED PARTY TRANSACTIONS – SHEPHERD UNIVERSITY

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

The Foundation utilizes space owned by the University but does not pay rent. In-kind revenue and expense of \$12,600 has been recorded for the use of this space for the years ended June 30, 2018 and 2017, respectively.

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

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

NOTE 14 FAIR VALUE MEASUREMENTS

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

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 14 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, 2018 and 2017 are as follows:

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 14 FAIR VALUE MEASUREMENTS (CONTINUED)

	Assets at Fair			
	Total	Level 1	Level 2	Level 3
2017				
Pledges receivable	\$ 3,584,513	\$ -	\$ -	\$ 3,584,513
Government securities				
US Treasuries	732,198	732,198	-	-
Agency Securities	173,134	-	173,134	-
Municipal Bonds	66,673	-	66,673	-
Mortgage Pools	183,044	-	183,044	-
Corporate Bonds	1,079,045	-	1,079,045	-
Mutual funds				
US Large Cap	3,027,044	3,027,044	-	-
US Small and Mid-Cap	2,462,992	2,462,992	-	-
International Equity	4,254,144	4,254,144	-	-
International Fixed Income	706,242	706,242	-	-
High-Yield Bond	332,067	332,067	-	-
REITs	585,485	585,485	-	-
Commodities	1,050,260	1,050,260	-	-
Equity Energy	231,026	231,026	-	-
Hedged Equity	1,780,464	1,780,464	-	-
Master Limited Partnerships	880,465	880,465	-	-
Diversified Alternatives	987,079	987,079	-	-
Managed Futures	693,897	693,897	-	-
Stocks				
US Small and Mid-Cap	694,517	694,517	-	-
US Large Cap	463,371	463,371	-	-
International Equity	925,528	925,528	-	-
Total Assets in the Fair Value Hierarchy	24,893,188	19,806,779	1,501,896	3,584,513
Investments Measured at Net Asset Value ^(a)				
Multi-Strategy Fund	922,274	-	-	-
Total Assets at Fair Value	<u>\$ 25,815,462</u>	<u>\$ 19,806,779</u>	<u>\$ 1,501,896</u>	<u>\$ 3,584,513</u>

- (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.

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Notes to Consolidated Financial Statements

NOTE 14 FAIR VALUE MEASUREMENTS (CONTINUED)

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

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

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Notes to Consolidated Financial Statements

NOTE 14 FAIR VALUE MEASUREMENTS (CONTINUED)

Investments Measured Using the Net Asset Value per Share Practical Expedient

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

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

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

NOTE 15 ENDOWMENTS

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

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

The Board of Trustees of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, The Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 15 ENDOWMENTS (CONTINUED)

applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

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

The endowments are invested consistent with an investment policy statement that is monitored by the Foundation's Directors. To satisfy the long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Funds in the endowment are primarily invested in U.S. Government Securities and managed equity funds with several investment managers using an investment philosophy that maintains equities in the range of 25% to 75% of the total fund, alternatives in the range of 5% to 45%, fixed income securities in the range of 0% to 40%, and cash in the range of 0% to 20%.

Endowment net assets consisted of donor permanently restricted endowment funds of \$20,718,853 and \$25,947,274 as of June 30, 2018 and 2017, respectively. The investment income derived from the endowment funds is primarily restricted to providing scholarships for students.

The changes in endowment net assets for the years ended June 30, 2018 and 2017 were as follows:

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 15 ENDOWMENTS (CONTINUED)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Foundation to retain as a fund of perpetual duration. The Foundation's accounting records do not contain the information necessary to determine the portion of the unrestricted net asset deficit that is attributable to endowment funds and the balance of deficiencies of this nature was not able to be determined as of June 30, 2018 and 2017.

NOTE 16 UNRESTRICTED NET ASSET DEFICIT

The Foundation records all realized and unrealized gains and losses to unrestricted net assets as they are incurred. The unrestricted net asset deficit of the Foundation is primarily the result of cumulative unrealized and realized losses not being allocated as a reduction to temporarily restricted net assets as well as scholarship disbursements from funds in excess of the actual unrealized and realized investment earnings of prior years. In addition, excess of expenses over revenues generated from the student facility project has contributed to the unrestricted net asset deficit. In order to reduce the deficit and generate positive unrestricted net assets, the Foundation will need to generate gains on their investments for consecutive years, reduce the level of annual fund disbursements, reduce operating expenses or generate revenues from another outside source. The balance of the unrestricted net asset deficit was \$(1,283,767) and \$(6,230,161) for the years ended June 30, 2018 and 2017, respectively. Of this deficit, \$(101,209) and \$(5,856,362) related to Shepherd University Foundation Inc. for the years ended June 30, 2018 and 2017, respectively and \$(1,182,558) and \$(373,799) related the Shepherd University Foundation Supporting Organization for the years ended June 30, 2018 and 2017, respectively.

NOTE 17 SUBSEQUENT EVENTS

The Foundation has evaluated events and transactions subsequent to June 30, 2018 through September 5, 2018, the date these financial statements were available to be issued. Based on the definitions and requirements of generally accepted accounting principles, management has not identified any events that have occurred subsequent to June 30, 2018 and through September 5, 2018, that require recognition or disclosure in the financial statements.

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Consolidating Statement of Financial Position
June 30, 2018

	Shepherd University Foundation, Inc.	Shepherd University Foundation Supporting Organization	Eliminations	Shepherd University Foundation, Inc. and Supporting Organization
ASSETS				
Cash and cash equivalents	\$ 998,543	\$ 1,017,157	\$ -	\$ 2,015,700
Cash and cash equivalents - restricted	2,530,864	63,008	-	2,593,872
Pledges receivable, net of present value adjustment	3,112,047	-	-	3,112,047
Accounts receivable	87	35,180	-	35,267
Due from Shepherd University	-	9,273	-	9,273
Accrued interest receivable	29,637	-	-	29,637
Prepaid expenses	1,582	11,437	-	13,019
Investments	23,558,785	-	-	23,558,785
Interest in life estate	369,589	-	-	369,589
Property and equipment, net	12,796	20,449,203	-	20,461,999
TOTAL ASSETS	\$ 30,613,930	\$ 21,585,258	\$ -	\$ 52,199,188
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable	\$ 15,666	\$ 949	\$ -	\$ 16,615
Due to Shepherd University	-	1,007,017	-	1,007,017
Accrued interest	-	18,860	-	18,860
Custodial liabilities	846,841	-	-	846,841
Gift annuities payable	108,325	-	-	108,325
Loan payable, net	-	21,740,990	-	21,740,990
Total Liabilities	970,832	22,767,816	-	23,738,648
Net Assets				
Unrestricted (deficit)	(101,209)	(1,182,558)	-	(1,283,767)
Temporarily restricted	9,025,454	-	-	9,025,454
Permanently restricted	20,718,853	-	-	20,718,853
Total Net Assets	29,643,098	(1,182,558)	-	28,460,540
TOTAL LIABILITIES AND NET ASSETS	\$ 30,613,930	\$ 21,585,258	\$ -	\$ 52,199,188

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, Inc. and Supporting Organization
ASSETS				
Cash and cash equivalents	\$ 795,798	\$ 1,641	\$ -	\$ 797,439
Cash and cash equivalents - restricted	2,297,407	5,537,707	-	7,835,114
Pledges receivable, net of present value adjustment	3,584,513	-	-	3,584,513
Accounts receivable	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
Property and 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 Activities
Year Ended June 30, 2018

	Shepherd University Foundation, Inc.	Shepherd University Foundation Supporting Organization	Eliminations	Shepherd University Foundation, Inc. and Supporting Organization
CHANGES IN UNRESTRICTED NET ASSETS				
SUPPORT AND REVENUE				
Dormitory rental income, net of waivers	\$ -	\$ 1,838,363	\$ -	\$ 1,838,363
Other revenue	22,430	456	-	22,886
Interest and dividends	122,621	25,238	-	147,859
Net realized and unrealized gains on investments	601,480	-	-	601,480
Transfers	5,792,817	-	-	5,792,817
Net assets released from restrictions	2,307,738	-	-	2,307,738
	<u>8,847,086</u>	<u>1,864,057</u>	<u>-</u>	<u>10,711,143</u>
Total Revenue and Other Support				
EXPENSES				
Program Expenses				
Scholarships and awards	2,287,605	-	-	2,287,605
College support	90,091	-	-	90,091
Salaries	-	70,092	-	70,092
Payroll taxes and benefits	-	11,604	-	11,604
Student activities	-	1,478	-	1,478
Equipment and supplies	-	8,812	-	8,812
Depreciation	-	645,900	-	645,900
Insurance	-	50,753	-	50,753
Contractual services	-	52,808	-	52,808
Telephone	-	2,781	-	2,781
Miscellaneous	-	217	-	217
Repairs and maintenance	-	35,291	-	35,291
Utilities	-	188,305	-	188,305
Ground rental	-	965,782	-	965,782
Interest expense	-	623,653	-	623,653
General and Administrative				
Salaries	351,043	-	-	351,043
Investment management fees	155,366	-	-	155,366
Printing and reproduction costs	31,314	-	-	31,314
Payroll taxes and benefits	60,275	-	-	60,275
Depreciation	6,164	-	-	6,164
Bank fees and administrative expense	9,492	243	-	9,735
Rent	12,600	-	-	12,600
Office supplies and postage	11,002	1,280	-	12,282
Insurance	5,860	-	-	5,860
Changes in gift annuities	8,038	-	-	8,038
Professional fees	22,887	13,817	-	36,704
Program development	33,597	-	-	33,597
Telephone	1,984	-	-	1,984
Technology	821	-	-	821
Bad debt expense	1,000	-	-	1,000
Miscellaneous	2,794	-	-	2,794
	<u>3,091,933</u>	<u>2,672,816</u>	<u>-</u>	<u>5,764,749</u>
Total Expenses				
Change In Unrestricted Net Assets	<u>\$ 5,755,153</u>	<u>\$ (808,759)</u>	<u>\$ -</u>	<u>\$ 4,946,394</u>

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Consolidating Statement of Activities
Year Ended June 30, 2018

(Continued)	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	\$ 1,617,883	\$ -	\$ -	\$ 1,617,883
Stock contributions	64,763	-	-	64,763
Other non-cash contributions	166,431	-	-	166,431
Other revenue	30,906	-	-	30,906
Interest and dividends	423,737	-	-	423,737
Net realized and unrealized gains on investments	203,235	-	-	203,235
Transfers	122,281	-	-	122,281
Net assets released from restrictions	<u>(2,307,738)</u>	<u>-</u>	<u>-</u>	<u>(2,307,738)</u>
Change in Temporarily Restricted Net Assets	<u>321,498</u>	<u>-</u>	<u>-</u>	<u>321,498</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS SUPPORT AND REVENUE				
Cash contributions	594,563	-	-	594,563
Stock contributions	48,237	-	-	48,237
Other non-cash contributions	17,557	-	-	17,557
Interest and dividends	26,320	-	-	26,320
Transfers	<u>(5,915,098)</u>	<u>-</u>	<u>-</u>	<u>(5,915,098)</u>
Change In Permanently Restricted Net Assets	<u>(5,228,421)</u>	<u>-</u>	<u>-</u>	<u>(5,228,421)</u>
Increase (Decrease) In Net Assets	<u>848,230</u>	<u>(808,759)</u>	<u>-</u>	<u>39,471</u>
NET ASSETS, BEGINNING OF YEAR	<u>28,794,868</u>	<u>(373,799)</u>	<u>-</u>	<u>28,421,069</u>
NET ASSETS, END OF YEAR	<u>\$ 29,643,098</u>	<u>\$ (1,182,558)</u>	<u>\$ -</u>	<u>\$ 28,460,540</u>

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Consolidating Statement of Activities
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>
EXPENSES				
Program Expenses				
Scholarships and awards	1,757,190	-	-	1,757,190
College support	107,195	-	-	107,195
Insurance	-	4,964	-	4,964
Interest expense	-	359,367	-	359,367
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
Bank fees and administrative expense	1,947	25	-	1,972
Rent	12,600	-	-	12,600
Office supplies and postage	7,772	182	-	7,954
Insurance	6,283	-	-	6,283
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	1,481	-	-	1,481
	<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>
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 Cash Flows
Year Ended June 30, 2018

	Shepherd University Foundation, Inc.	Shepherd University Foundation Supporting Organization	Eliminations	Shepherd University Foundation, Inc. and Supporting Organization
CASH FLOWS FROM OPERATING ACTIVITIES				
Increase (decrease) in net assets	\$ 848,230	\$ (808,759)	\$ -	\$ 39,471
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:				
Net realized and unrealized (gains) on investments	(804,715)	-	-	(804,715)
Depreciation	6,164	645,900	-	652,064
Non-cash interest expense associated with debt issuance costs	-	208,519	-	208,519
Non-cash stock contributions received	(113,000)	-	-	(113,000)
Write-off of uncollectible pledges receivable	1,000	-	-	1,000
Decrease in pledges receivables, net of discount	471,466	-	-	471,466
(Increase) decrease in accounts receivable	750	(35,180)	-	(34,430)
(Increase) in accrued interest receivable	(8,618)	-	-	(8,618)
(Increase) in prepaid expenses	-	(11,437)	-	(11,437)
(Increase) in interest in life estate	(17,557)	-	-	(17,557)
Increase in accounts payable	12,409	949	-	13,358
Increase in net due to (due from) Shepherd University	-	997,744	-	997,744
Increase in accrued interest payable	-	18,860	-	18,860
(Decrease) in custodial liabilities	(316,195)	-	-	(316,195)
Net Cash Provided By Operating Activities	<u>79,934</u>	<u>1,016,596</u>	<u>-</u>	<u>1,096,530</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of investments	7,166,092	-	-	7,166,092
Purchases of investments	(6,786,103)	-	-	(6,786,103)
Gift annuity payments	(13,821)	-	-	(13,821)
Purchases of property and equipment	(9,900)	(4,831,461)	-	(4,841,361)
Net Cash Provided By (Used In) Investing Activities	<u>356,268</u>	<u>(4,831,461)</u>	<u>-</u>	<u>(4,475,193)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Payment of loan origination costs	-	(26,890)	-	(26,890)
Proceeds from loan borrowings	-	21,892,000	-	21,892,000
Repayment of loan borrowings	-	(22,509,428)	-	(22,509,428)
Net Cash (Used In) Financing Activities	<u>-</u>	<u>(644,318)</u>	<u>-</u>	<u>(644,318)</u>
Net Increase (Decrease) In Cash and Cash Equivalents	436,202	(4,459,183)	-	(4,022,981)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,093,205</u>	<u>5,539,348</u>	<u>-</u>	<u>8,632,553</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,529,407</u>	<u>\$ 1,080,165</u>	<u>\$ -</u>	<u>\$ 4,609,572</u>
RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS TO THE STATEMENT OF FINANCIAL POSITION				
Cash and cash equivalents	\$ 998,543	\$ 1,017,157	\$ -	\$ 2,015,700
Cash and cash equivalents - restricted	2,530,864	63,008	-	2,593,872
	<u>\$ 3,529,407</u>	<u>\$ 1,080,165</u>	<u>\$ -</u>	<u>\$ 4,609,572</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the year for interest was \$532,772, of which \$22,750 was capitalized as a component of the dormitory building construction costs.

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, Inc. 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 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 accounts receivable	(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	-	(15,350,212)	-	(15,350,212)
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>
RECONCILIATION OF TOTAL CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS TO THE STATEMENT OF FINANCIAL POSITION				
Cash and cash equivalents	\$ 795,798	\$ 1,641	\$ -	\$ 797,439
Cash and cash equivalents - restricted	2,297,407	5,537,707	-	7,835,114
	<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.



**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, 2018 and 2017, 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 September 5, 2018.

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 Kearns & Company, LLC

Hagerstown, Maryland
September 5, 2018



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, 2018. 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 the 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 its major federal program for the year ended June 30, 2018.

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 Kearns & Company, LLC

Hagerstown, Maryland
September 5, 2018

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Consolidated Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Passed Through to Subrecipients</u>	<u>Federal Expenditures</u>
DEPARTMENT OF AGRICULTURE				
Direct Program:				
Community Facilities Loans and Grants Cluster:				
Community Facilities Loans and Grants	10.766	57-019-811054787	\$ -	\$ 21,892,000
Total Department of Agriculture			-	21,892,000
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ -	\$ 21,892,000

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Schedule of Expenditures of Federal Awards

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, 2018. 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, 2018.

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 2018 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 permanent financing 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 was provided by bond anticipation notes issued by the West Virginia Economic Development Authority. On January 19, 2018, funding from the USDA Community Facilities Loan was drawn upon and used to repay the West Virginia bond anticipation notes upon their February 1, 2018 maturity. In accordance with federal requirements applicable to the USDA Community Facilities Loan and Grants program, expenditures funded with interim financing that will be ultimately 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

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 is as follows:

Loan balance at June 30, 2017	\$ 19,532,075
Borrowings during fiscal year 2018	<u>2,359,925</u>
Loan balance at June 30, 2018	<u>\$ 21,892,000</u>

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Schedule of Findings and Questioned Costs
June 30, 2018

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:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.766	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, 2018

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

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

FINDINGS RELATED TO FEDERAL AWARDS

There were no prior year findings related to federal awards.