

Consolidated
Financial Report

June 30,
2019

Shepherd University
Foundation, Inc. and
Supporting Organization

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SHEPHERD UNIVERSITY FOUNDATION, INC.

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<u>Name</u>	<u>Position</u>
Christopher S. Colbert '95	President
Timothy B. McShea '80	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>
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
Pat Moler Egle '69	2022
Robert H. Jensenius '72	2022
Kenneth J. Boone '76	2022
D. Benjamin Deuell '08	2022
Dr. Jason Best	2022
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Allen L. Lueck '67
Susan Mentzer-Blair '72
Jerry P. Kerr '68
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Directors Emeriti

Dr. James A. Butcher
Dr. Jane Ikenberry-Dorrier '65
Elizabeth S. Lowe '52
David T. Newlin '76
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Mary J. C. Hendrix '74
Arthur J. Auxer '69
Cecelia Mason
Monica W. Lingenfelter



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, 2019 and 2018, 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 consolidated financial position of Shepherd University Foundation, Inc. and Supporting Organization as of June 30, 2019 and 2018, and the changes in their consolidated net assets and their consolidated 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 consolidated financial statements, the Shepherd University Foundation, Inc. and Supporting Organization adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. 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. 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, 2019, on our consideration of Shepherd University Foundation, Inc. and Supporting Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Shepherd University Foundation Inc. and Supporting Organization's internal control over financial reporting and compliance.

Smith Elliott Keorns + Company, LLC

Hagerstown, Maryland
September 5, 2019

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Consolidated Statements of Financial Position
June 30, 2019 and 2018

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 2,884,734	\$ 4,609,572
Pledges receivable, net of present value adjustment	2,807,445	3,112,047
Accounts receivable	31,422	35,267
Due from Shepherd University	35,028	9,273
Accrued interest receivable	30,956	29,637
Prepaid expenses	20,614	13,019
Investments	25,962,292	23,558,785
Interest in life estate	387,726	369,589
Property and equipment, net	<u>19,753,054</u>	<u>20,461,999</u>
TOTAL ASSETS	<u><u>\$ 51,913,271</u></u>	<u><u>\$ 52,199,188</u></u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 2,821	\$ 16,615
Due to Shepherd University	417,332	1,007,017
Accrued interest	18,600	18,860
Custodial liabilities	788,749	846,841
Gift annuities payable	93,441	108,325
Loans payable, net	<u>21,418,621</u>	<u>21,740,990</u>
Total Liabilities	<u>22,739,564</u>	<u>23,738,648</u>
Net Assets		
Net assets without donor restriction		
Undesignated	(1,845,330)	(1,283,767)
Designated	79,454	59,126
Net assets with donor restriction		
Restricted for a specific purpose	9,555,753	8,966,328
Restricted in perpetuity	<u>21,383,830</u>	<u>20,718,853</u>
Total Net Assets	<u>29,173,707</u>	<u>28,460,540</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 51,913,271</u></u>	<u><u>\$ 52,199,188</u></u>

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Consolidated Statements of Activities
Years Ended June 30, 2019 and 2018

	2019	2018
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
SUPPORT AND REVENUE		
Potomac Place rental income, net of waivers	\$ 1,927,856	\$ 1,838,363
Cash contributions	3,050	600
Other revenue	26,926	22,886
Net investment return	1,484	593,973
Transfers	406,872	5,888,317
Net assets released from restrictions	<u>2,307,590</u>	<u>2,217,650</u>
 Total Revenue and Other Support	 <u>4,673,778</u>	 <u>10,561,789</u>
EXPENSES		
Program Expenses	4,638,679	5,079,880
General and Administrative	<u>576,332</u>	<u>529,503</u>
 Total Expenses	 <u>5,215,011</u>	 <u>5,609,383</u>
 Change In Net Assets Without Donor Restrictions	 <u>\$ (541,233)</u>	 <u>\$ 4,952,406</u>
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
SUPPORT AND REVENUE		
Cash contributions	\$ 2,564,675	\$ 2,211,846
Stock contributions	192,730	113,000
Other non-cash contributions	36,886	183,988
Other revenue	29,076	30,906
Net investment return	1,145,495	653,292
Transfers	(406,872)	(5,888,317)
Net assets released from restrictions	<u>(2,307,590)</u>	<u>(2,217,650)</u>
 Change in Net Assets With Donor Restriction	 <u>1,254,400</u>	 <u>(4,912,935)</u>
 Increase In Net Assets	 <u>713,167</u>	 <u>39,471</u>
 NET ASSETS, BEGINNING OF YEAR	 <u>28,460,540</u>	 <u>28,421,069</u>
 NET ASSETS, END OF YEAR	 <u>\$ 29,173,707</u>	 <u>\$ 28,460,540</u>

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 713,167	\$ 39,471
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net realized and unrealized (gains) on investments	(562,014)	(804,715)
Depreciation	712,950	652,064
Non-cash interest expense associated with debt issuance costs	820	208,519
Non-cash stock contributions received	(192,730)	(113,000)
Write-off of uncollectible pledges receivable	-	1,000
Decrease in pledges receivables, net of discount	304,602	471,466
(Increase) decrease in accounts receivable	3,845	(34,430)
(Increase) in accrued interest receivable	(1,319)	(8,618)
(Increase) in prepaid expenses	(7,595)	(11,437)
(Increase) in interest in life estate	(18,137)	(17,557)
Increase (decrease) in accounts payable	(13,794)	13,358
Increase (decrease) in net due to (due from) Shepherd University	(615,440)	997,744
Increase (decrease) in accrued interest payable	(260)	18,860
(Decrease) in custodial liabilities	(58,092)	(316,195)
	<u>266,003</u>	<u>1,096,530</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	5,528,817	7,166,092
Purchases of investments	(7,181,585)	(6,786,103)
Gift annuity payments	(14,884)	(13,821)
Purchases of property and equipment	-	(4,841,361)
	<u>(1,667,652)</u>	<u>(4,475,193)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of loan origination costs	(23,000)	(26,890)
Proceeds from loan borrowings	-	21,892,000
Repayment of loan borrowings	(300,189)	(22,509,428)
	<u>(323,189)</u>	<u>(644,318)</u>
Net Cash (Used In) Investing Activities		
Net (Decrease) In Cash and Cash Equivalents	(1,724,838)	(4,022,981)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4,609,572</u>	<u>8,632,553</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,884,734</u>	<u>\$ 4,609,572</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the years ended June 30, 2019 and 2018 for interest was \$621,903 and \$532,772, respectively. Interest payments of \$0 and \$22,750 were capitalized as a component of the residence hall building construction costs in 2019 and 2018, respectively.

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.

Nature of Operations and Program Activities

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

Basis of Accounting

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

Revenues are reported as increases in net assets without donor restriction unless use of the related assets are limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on assets or liabilities are reported as increases or decreases in net assets without donor restriction unless their use is restricted by explicit donor stipulation or by law. Expirations of net assets with donor restriction (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets

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

Net Assets Without Donor Restriction

Net assets that are not subject to donor-imposed stipulations. Net assets without donor imposed restrictions include net assets designated by the board for a specific purpose, namely to provide college support to Shepherd University. Board-designated net assets amounted to \$79,454 and \$59,126 at June 30, 2019 and 2018, respectively, which were made up of cash and cash equivalents.

Net Assets With Donor Restriction

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

Investments

The Foundation accounts for its investments in accordance with 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%.

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Residence Hall Revenue, Accounts Receivable and Deferred Revenues

Revenues related to the operation of the Potomac Place residence hall are recognized in the period the related housing and services are provided. To the extent applicable, deferred revenue is recognized for any advanced payments received from students and others prior to the period of the rental. Accounts receivable primarily represents amounts due for residence hall rentals that occurred prior to the financial statement date. Management determines an allowance for doubtful accounts by regularly evaluating the individual receivables and considering the student's financial condition and payment history. Receivables are written off when deemed uncollectible. As of June 30, 2019 and 2018, management feels all receivables will be collected and therefore, has not established an allowance for doubtful accounts.

Property and Equipment

Purchased assets are recorded at cost. Donated assets retained by the Foundation are recorded at their current or appraised value at the date they are donated. Expenditures of \$5,000 or more and having a useful life greater than one year are capitalized. Assets no longer in use are retired. Maintenance and repairs are expensed as incurred. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets as follows:

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

Loan Origination Costs

The Foundation has presented all loan origination costs as a direct deduction from loans payable. Amortization of the loan costs is included as a component of interest expense.

In February 2018, the Shepherd University Supporting Organization incurred loan origination costs of \$26,890 associated with the permanent refinancing of the WV Economic Development Authority bond anticipation notes with a USDA loan. In April 2019, an additional \$23,000 loan costs associated with this permanent financing was incurred. These costs are being amortized using the straight-line method over the life of the related debt, which is 40 years.

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 \$3,205 and \$2,666 for the years ended June 30, 2019 and 2018, respectively.

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 Expenses

Certain costs have been allocated among the programs and supporting services. Allocation of costs by function is based principally on specific identification of costs to either program or general and administrative expenses. Non-specifically identified costs are based on square footage allocations and on management's allocation of time requirements incurred for the various functions based on their analysis of historical activities.

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, mutual funds and equity securities. Such investments are exposed to various risks, such as market and credit risk. Due to the level of risk associated with such investments, it is at least reasonably possible that changes in risk in the near term would materially affect investment balances and the amounts reported in the consolidated financial statements.

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.

Change in Accounting Standard

On August 28, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net assets classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation implemented ASU 2016-14 during the year ended June 30, 2019 and adjusted the presentation in the financial statements accordingly. The ASU has 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, 2019.

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in accounting principles generally accepted in the United States of America when it becomes effective on July 1, 2019 and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The Foundation is currently evaluating the effect that the updated standard will have on the financial statements.

In February 2016, FASB issued ASU 2016-02, Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. The new standard is effective for the Foundation starting July 1, 2020. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Foundation will be evaluating the effect that the standard will have on the financial statements.

NOTE 2 CASH AND CASH EQUIVALENTS

Restricted cash includes cash and cash equivalents held in demand accounts at financial institutions or brokerage firms that are associated with custodial liabilities or restricted funds held within the Foundation. Also, in connection with the USDA loan discussed in Note 9, commencing in February 2018, the Foundation is required to 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.

Cash and cash equivalents consisted of the following at June 30, 2019 and 2018:

	2019	2018
Restricted cash:		
Cash associated with custodial liabilities	\$ 1,855,913	\$ 2,723,877
Cash associated with restricted funds	788,749	846,841
Debt service reserve account	131,344	38,961
Property replacement reserve account	82,469	24,047
Total restricted cash	<u>2,858,475</u>	<u>3,633,726</u>
Unrestricted cash	26,259	975,846
Total cash and cash equivalents	<u>\$ 2,884,734</u>	<u>\$ 4,609,572</u>

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

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, 2024.

Pledges receivable as of June 30, 2019 and 2018 consist of net assets with donor restriction. These unconditional promises to give are scheduled to be received by the Foundation over the next several years and are considered to be fully collectible.

	2019	2018
Receivable in less than one year	\$ 771,840	\$ 679,410
Receivable in one to five years	<u>2,248,768</u>	<u>2,769,841</u>
Total pledges receivable	3,020,608	3,449,251
Less discount to net present value	<u>(213,163)</u>	<u>(337,204)</u>
Net Pledges Receivable	<u>\$ 2,807,445</u>	<u>\$ 3,112,047</u>

NOTE 4 INVESTMENTS

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

Investment securities at June 30, 2019 and 2018 are composed of the following:

Description	Cost	Market
2019		
Certificates of deposit	\$ 689,764	\$ 689,764
Government securities	2,086,391	2,125,225
Corporate bonds and notes	1,696,413	1,727,566
Mutual funds	15,900,934	19,017,094
Stocks	<u>1,724,990</u>	<u>2,297,894</u>
Investment Securities	<u>\$ 22,098,492</u>	<u>\$ 25,857,543</u>
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>

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

NOTE 4 INVESTMENTS (CONTINUED)

At June 30, 2019 and 2018, there was \$929,458 and \$1,942,285, 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
2019			
Land	\$ 40,000	\$ -	\$ 40,000
Building	160,202	95,453	64,749
	<u>\$ 200,202</u>	<u>\$ 95,453</u>	<u>\$ 104,749</u>
2018			
Land	\$ 40,000	\$ -	\$ 40,000
Building	160,202	91,448	68,754
	<u>\$ 200,202</u>	<u>\$ 91,448</u>	<u>\$ 108,754</u>

Depreciation expense related to investment in real estate amounted to \$4,005 for each year ended June 30, 2019 and 2018, respectively.

The following is a summary of the Foundation's investments at June 30, 2019 and 2018:

Description	2019	2018
Investment securities	\$ 25,857,543	\$ 23,450,031
Real estate	104,749	108,754
	<u>\$ 25,962,292</u>	<u>\$ 23,558,785</u>

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

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, 2019 and 2018 were \$387,726 and \$369,589, 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 net assets with donor restriction in the Foundation's consolidated statement of activities.

NOTE 6 PROPERTY AND EQUIPMENT

Equipment consists of the following:

	2019	2018
Office equipment	\$ 22,299	\$ 22,299
Residence hall building and improvement	20,082,300	20,082,300
Residence hall furniture and fixtures	<u>1,012,802</u>	<u>1,012,802</u>
	21,117,401	21,117,401
Less: accumulated depreciation	<u>(1,364,347)</u>	<u>(655,402)</u>
Net Book Value	<u>\$ 19,753,054</u>	<u>\$ 20,461,999</u>

Depreciation expense related to property and equipment was \$708,944 and \$648,059 for the years ended June 30, 2019 and 2018, 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.

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 7 CUSTODIAL LIABILITIES

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

The gross receipts and disbursements for the custodial accounts, and the net investment return on investments for the custodial accounts for the years ended June 30, 2019 and 2018 are as follows:

	2019	2018
Custodial receipts	\$ 340,800	\$ 260,631
Custodial payments	(406,650)	(582,281)
Net investment return	7,758	5,455
Net (Decrease) in Custodial Liabilities	<u>\$ (58,092)</u>	<u>\$ (316,195)</u>

NOTE 8 GIFT ANNUITIES

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

The liability associated with gift annuities payable amounted to \$93,441 and \$108,325 for the years ended June 30, 2019 and 2018, respectively.

NOTE 9 LOANS PAYABLE

As disclosed in Note 16, in June 2016 the Shepherd University Foundation Supporting Organization obtained interim financing for their student housing facility project through bond anticipation notes issued by the West Virginia Economic Development Authority. The Shepherd University Foundation Supporting Organization borrowed \$22,035,000 under Series 2016A bond anticipation notes with an interest rate of 1.20% and \$350,000 of Series 2016B taxable bond anticipation notes with an interest rate of 2.45%. The loans matured on February 1, 2018 and required semi-annual interest only payments on August 1 and February 1 of each loan year. On February 1, 2018, all outstanding interest and principal was repaid using the financing provided by the USDA rural development loan noted below. The bond anticipation bonds were secured by a leasehold deed of trust on the student housing facility project, which was released upon repayment of the notes.

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

NOTE 9 LOANS PAYABLE (CONTINUED)

On January 19, 2018, the Shepherd University Supporting Organization borrowed \$21,892,000 under a 40-year USDA rural development loan to 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 \$19,744,584 and \$20,449,203 at June 30, 2019 and 2018, respectively. Total interest capitalized during the construction period of the student housing facility project amounted to \$311,669.

The balance of loans payable, net of loan costs, at June 30, 2019 and 2018 is as follows:

	2019	2018
USDA Rural Development Loan	\$ 21,467,383	\$ 21,767,572
Less loan costs, net of accumulated amortization of \$1,128 and \$308, respectively	<u>(48,762)</u>	<u>(26,582)</u>
	<u>\$ 21,418,621</u>	<u>\$ 21,740,990</u>

The future required principal payments as of June 30, 2019 are as follows:

Year Ending June 30,	
2020	\$ 307,247
2021	317,885
2022	327,145
2023	336,675
2024	344,900
Thereafter	<u>19,833,531</u>
	<u>\$ 21,467,383</u>

Amortization of loan costs charged to interest expense for the years ended June 30, 2019 and 2018 was \$820 and \$208,519, 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.

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 10 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Restricted for a Specific Purpose		
Scholarships, awards and college support	\$ 9,555,753	\$ 8,966,328
Restricted in Perpetuity		
Endowment Funds	21,383,830	20,718,853
	<u>\$ 30,939,583</u>	<u>\$ 29,685,181</u>
Assets		
Cash and equivalents	\$ 1,855,913	\$ 2,723,877
Pledges receivable, net of present value adjustment	2,807,445	3,112,047
Accrued interest receivable	30,956	29,637
Investments	25,857,543	23,450,031
Interest in life estate	387,726	369,589
	<u>\$ 30,939,583</u>	<u>\$ 29,685,181</u>

NOTE 11 ENDOWMENTS

The Foundation's endowments consist of individual donor-restricted funds established to provide scholarships, awards and college support to the students, faculty and programs of Shepherd University. Net assets associated with endowment funds are classified and reported as net assets with donor restriction based on the donor-imposed restrictions. The classification is based on the board's interpretation of West Virginia's statutes that govern such endowments and its interpretations of donor intent and the related endowment bylaws.

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

The Board of Trustees of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, The Foundation classifies as net assets with donor restriction - restricted in perpetuity (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. The net investment return on the endowment funds is classified as net assets with donor restrictions - restricted for a specific purpose until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA.

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 11 ENDOWMENTS (CONTINUED)

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 net investment income is added to net assets with donor restrictions – restricted for a specific purpose.

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%.

All endowment funds held at the Foundation are donor restricted endowment funds. Donor restricted endowment funds amounted to \$22,985,970 and \$22,219,574 as of June 30, 2019 and 2018, respectively.

The changes in endowment net assets for the years ended June 30, 2019 and 2018 were as follows:

Endowment Net Assets at July 1, 2017	\$ 27,340,297
Net investment return	762,998
Contributions	920,859
Transfers of funding with the Foundation	(6,146,571)
Appropriations of endowment assets for expenditure	<u>(658,009)</u>
Endowment Net Assets at June 30, 2018	\$ 22,219,574
Net investment return	999,493
Contributions	865,984
Transfers of funding with the Foundation	(516,901)
Appropriations of endowment assets for expenditure	<u>(582,180)</u>
Endowment Net Assets at June 30, 2019	<u>\$ 22,985,970</u>

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 11 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 (underwater endowments). At June 30, 2019, three endowment funds with original gift values of \$33,103, fair values of \$30,273 and deficiencies of \$2,830 were reported in net assets with donor restrictions. At June 30, 2018, nine endowment funds with original gift values of \$285,571, fair values of \$280,309 and deficiencies of \$5,262 were reported in net assets with donor restrictions. These deficiencies resulted from unfavorable market fluctuations.

NOTE 12 FAIR VALUE MEASUREMENTS

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

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 12 FAIR VALUE MEASUREMENTS (CONTINUED)

Fair value of assets measured on a recurring basis at June 30, 2019 and 2018 are as follows:

	Assets at Fair			
	Total	Level 1	Level 2	Level 3
2019				
Pledges receivable	\$ 2,807,445	\$ -	\$ -	\$ 2,807,445
Government securities				
US Treasuries	1,396,428	1,396,428	-	-
Agency Securities	139,501	-	139,501	-
Municipal Bonds	252,957	-	252,957	-
Mortgage Pools	336,339	-	336,339	-
Corporate Bonds	1,727,566	-	1,727,566	-
Mutual funds				
US Large Cap	5,382,534	5,382,534	-	-
US Small and Mid-Cap	2,128,422	2,128,422	-	-
International Equity	2,307,733	2,307,733	-	-
US Short-Term Bond	-	-	-	-
Energy Limited Partnership	514,318	514,318	-	-
International Fixed Income	718,907	718,907	-	-
High-Yield Bond	330,857	330,857	-	-
REITs	638,614	638,614	-	-
Options-Based Equity	1,090,131	1,090,131	-	-
Long-Short Equity	1,637,520	1,637,520	-	-
Diversified Alternatives	3,260,617	3,260,617	-	-
Stocks				
US Small and Mid-Cap	774,642	774,642	-	-
US Large Cap	303,306	303,306	-	-
International Equity	1,219,946	1,219,946	-	-
Total Assets in the Fair Value Hierarchy	26,967,783	21,703,975	2,456,363	2,807,445
Investments Measured at Net Asset Value ^(a)				
Multi-Strategy Fund	1,007,441	-	-	-
Total Assets at Fair Value	\$ 27,975,224	\$ 21,703,975	\$ 2,456,363	\$ 2,807,445
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	-	-
Long-Short Equity	2,585,237	2,585,237	-	-
Diversified Alternatives	3,111,468	3,111,468	-	-
Stocks				
US Small and Mid-Cap	714,865	714,865	-	-
US Large Cap	207,178	207,178	-	-
International Equity	1,062,194	1,062,194	-	-
Total Assets in the Fair Value Hierarchy	24,894,647	19,870,393	1,912,207	3,112,047
Investments Measured at Net Asset Value ^(a)				
Multi-Strategy Fund	982,803	-	-	-
Total Assets at Fair Value	\$ 25,877,450	\$ 19,870,393	\$ 1,912,207	\$ 3,112,047

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

NOTE 12 FAIR VALUE MEASUREMENTS (CONTINUED)

- (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.

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, 2019 and 2018:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Pledges Receivable	
June 30, 2019		
Fair Value as of July 1, 2018	\$	3,112,047
New pledges		305,600
Payments received		(734,243)
Change in valuation		124,041
Fair Value as of June 30, 2019	\$	<u>2,807,445</u>
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>

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 12 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, 2019 and 2018.

	Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
June 30, 2019				
Ironwood Fund ^(a)	\$ 1,007,441	N/A	Semi-Annually	95 days
June 30, 2018				
Ironwood Fund ^(a)	\$ 982,803	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 13 EMPLOYEE RETIREMENT PLAN

The Foundation participates in the TIAA - CREF retirement plan. The Foundation contributes to the plan based on a dollar for dollar match of the contributions of full-time employees up to 6%. The cost recognized during the years ended June 30, 2019 and 2018 was \$13,375 and \$13,606, respectively.

NOTE 14 CONDITIONAL PROMISES TO GIVE

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 15 RELATED PARTY TRANSACTIONS – SHEPHERD UNIVERSITY

The Foundation is a component unit of Shepherd University (University). The Shepherd University Foundation, Inc. provides scholarships and support for the students, facilities and programs of the University. Total scholarships, awards and college support provided to the University and students attending the University amounted to \$2,451,292 and \$2,377,696 for the years ended June 30, 2019 and 2018, 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, 2019 and 2018, respectively.

In August 2017, the Shepherd University Foundation Supporting Organization entered into an agreement to lease 1,490 square feet on the ground floor of the Potomac Place student housing facility to the University for the purpose of operating a food service market to serve the students of the facility. The 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 \$32,400 and \$27,990 for the years ended June 30, 2019 and 2018, respectively.

As disclosed in Note 16, the Shepherd University Foundation Supporting Organization has entered into a ground lease agreement and management agreement with the University as part of the student housing facilities project. Total expense incurred under these agreements amounted to \$382,050 and \$965,782 for the years ended June 30, 2019 and 2018, 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 \$35,028 and \$9,273, respectively. Amounts due to the University for reimbursement of operating expenses and payment of the ground lease fee noted above amounted to \$417,332 and \$1,007,017, respectively.

NOTE 16 POTOMAC PLACE STUDENT HOUSING FACILITY PROJECT

During 2016, the Shepherd University Foundation Supporting Organization began the design and construction of Potomac Place, a new 298 bed 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 9, 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 16 POTOMAC PLACE STUDENT HOUSING FACILITY PROJECT (CONTINUED)

Rental payments will equal the net available cash flow generated from the operations of Potomac Place. Rent expense due to Shepherd University for the ground lease amounted to \$382,050 and \$965,782 for the years ended June 30, 2019 and 2018, respectively. Cumulative cash payments made to Shepherd University for ground lease rental payments since the residence hall became operational amounted to \$965,782 as of June 30, 2019.

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

The residence hall room rental fee rates, number of students served per semester and total fees collected on student residence hall room rentals are noted below for the year ended June 30, 2019 and 2018.

	2019	2018
Single Bed Rate - Term	\$ 4,361.00	\$ 4,275.00
Double Bed Rate - Term	\$ 3,252.00	\$ 3,188.00
Single Bed Rate - Daily	\$ 38.25	\$ 37.50
Double Bed Rate - Daily	\$ 28.53	\$ 27.96
Total Students Served - Fall Semester	265	282
Total Students Served - Spring Semester	274	263
Student Residence Hall Room Revenue During School Year	\$ 1,891,560	\$ 1,824,108
Residence Hall Rental for Summer Conferences	56,298	27,330
Rental Revenue from SU for Food Market	32,400	27,990
Late Fees and Fees for Damages	-	8,433
Less: Student Residence Hall Room Waivers	<u>(52,402)</u>	<u>(49,498)</u>
Total Net Residence Hall Room Rental for Fiscal Year	<u>\$ 1,927,856</u>	<u>\$ 1,838,363</u>
Total Cash Collected on Current Year Accounts	<u>\$ 1,896,521</u>	<u>\$ 1,803,183</u>

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 17 FUNCTIONAL EXPENSES

The allocation of the Foundation's expenses between program activities and support activities for the years ending June 30, 2019 and 2018 is as follows:

	Program Activities			Support Activities	
	Scholarships and College Support	Dormitory Operations	Total Program Expenses	General and Administrative Expenses	Total
2019					
Scholarships and awards	\$ 2,376,570	\$ -	\$ 2,376,570	\$ -	\$ 2,376,570
College support	74,722	-	74,722	-	74,722
Salaries	40,633	103,211	143,844	328,234	472,078
Payroll taxes and benefits	5,415	17,007	22,422	59,315	81,737
Student activities	-	1,876	1,876	-	1,876
Equipment and supplies	-	3,006	3,006	-	3,006
Depreciation	-	704,619	704,619	8,331	712,950
Insurance	-	52,338	52,338	6,392	58,730
Contractual services	-	13,678	13,678	-	13,678
Telephone	-	2,391	2,391	1,741	4,132
Repairs and maintenance	-	44,425	44,425	-	44,425
Utilities	-	194,275	194,275	-	194,275
Ground rental	-	382,050	382,050	-	382,050
Interest expense	-	622,463	622,463	-	622,463
Printing and reproduction costs	-	-	-	31,839	31,839
Bank fees and administrative expense	-	-	-	10,275	10,275
Rent	-	-	-	12,600	12,600
Office supplies and postage	-	-	-	12,257	12,257
Changes in gift annuities	-	-	-	6,974	6,974
Professional fees	-	-	-	60,841	60,841
Staff training	-	-	-	81	81
Program development	-	-	-	30,933	30,933
Technology	-	-	-	3,254	3,254
Miscellaneous	-	-	-	3,265	3,265
TOTAL EXPENSES	\$ 2,497,340	\$ 2,141,339	\$ 4,638,679	\$ 576,332	\$ 5,215,011
2018					
Scholarships and awards	\$ 2,287,605	\$ -	\$ 2,287,605	\$ -	\$ 2,287,605
College support	90,091	-	90,091	-	90,091
Salaries	39,450	70,092	109,542	311,593	421,135
Payroll taxes and benefits	5,258	11,604	16,862	55,017	71,879
Student activities	-	1,478	1,478	-	1,478
Equipment and supplies	-	8,812	8,812	-	8,812
Depreciation	-	645,900	645,900	6,164	652,064
Insurance	-	50,753	50,753	5,860	56,613
Contractual services	-	52,808	52,808	-	52,808
Telephone	-	2,781	2,781	1,984	4,765
Repairs and maintenance	-	35,291	35,291	-	35,291
Utilities	-	188,305	188,305	-	188,305
Ground rental	-	965,782	965,782	-	965,782
Interest expense	-	623,653	623,653	-	623,653
Printing and reproduction costs	-	-	-	31,314	31,314
Bank fees and administrative expense	-	-	-	9,735	9,735
Rent	-	-	-	12,600	12,600
Office supplies and postage	-	-	-	12,282	12,282
Changes in gift annuities	-	-	-	8,038	8,038
Professional fees	-	-	-	36,704	36,704
Program development	-	-	-	33,597	33,597
Technology	-	-	-	821	821
Bad debt expense	-	-	-	1,000	1,000
Miscellaneous	-	217	217	2,794	3,011
TOTAL EXPENSES	\$ 2,422,404	\$ 2,657,476	\$ 5,079,880	\$ 529,503	\$ 5,609,383

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 18 LIQUIDITY AND AVAILABILITY OF RESOURCES

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

	<u>2019</u>
Cash and cash equivalents (undesignated)	\$ 26,259
Accounts receivable	31,422
Due from Shepherd University	<u>35,028</u>
	<u>\$ 92,709</u>

The Foundation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Foundation has various sources of liquidity at its disposal, including cash and cash equivalents, accounts receivable and amounts due from Shepherd University. Total cash of \$213,813 is excluded due to the fact that it represents debt service and property replacement reserves required to be maintained under the Foundation's USDA loan agreement, and \$2,644,662 is excluded due to it being restricted for custodial liabilities and donor-restricted funds held at the Foundation. Accrued interest receivable in the amount of \$30,956 and investments in the amount of \$25,857,543 are excluded due to the fact that these funds are the restricted portion of donor-restricted funds held at the Foundation. The remaining \$104,749 of investments excluded represents an investment in real estate that is not readily marketable.

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

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 19 DEFICIT OF UNDESIGNATED NET ASSETS WITHOUT DONOR RESTRICTION

The deficit in undesignated net assets without donor restrictions of the Foundation is primarily the result of cumulative unrealized and realized losses not being allocated as a reduction to net assets with donor restriction in fiscal years prior to 2018 as well as scholarship disbursements from funds in excess of the actual unrealized and realized investment earnings. In addition, excess of expenses over revenues generated from the Potomac Place student facility project has contributed to the net assets without donor restriction deficit. In order to reduce the deficit and generate positive net assets without donor restriction, the Foundation will need to generate gains on their investments for consecutive years, reduce the level of annual fund disbursements, reduce operating expenses or generate revenues from another outside source. The balance of the net assets without donor restriction deficit was \$(1,845,330) and \$(1,283,767) for the years ended June 30, 2019 and 2018, respectively. Of this deficit, \$(423,205) and \$(101,209) related to Shepherd University Foundation Inc. for the years ended June 30, 2019 and 2018, respectively and \$(1,422,125) and \$(1,182,558) related the Shepherd University Foundation Supporting Organization for the years ended June 30, 2019 and 2018, respectively.

NOTE 20 SUBSEQUENT EVENTS

The Foundation has evaluated events and transactions subsequent to June 30, 2019 through September 5, 2019, 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 require recognition or disclosure in the financial statements.

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Consolidating Statement of Financial Position
June 30, 2019

	Shepherd University Foundation, Inc.	Shepherd University Foundation Supporting Organization	Eliminations	Shepherd University Foundation, Inc. and Supporting Organization
ASSETS				
Cash and cash equivalents	\$ 2,277,051	\$ 607,683	\$ -	\$ 2,884,734
Pledges receivable, net of present value adjustment	2,807,445	-	-	2,807,445
Accounts receivable	87	31,335	-	31,422
Due from Shepherd University	-	35,028	-	35,028
Accrued interest receivable	30,956	-	-	30,956
Prepaid expenses	6,582	14,032	-	20,614
Investments	25,962,292	-	-	25,962,292
Interest in life estate	387,726	-	-	387,726
Property and equipment, net	8,470	19,744,584	-	19,753,054
TOTAL ASSETS	\$ 31,480,609	\$ 20,432,662	\$ -	\$ 51,913,271
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable	\$ 2,587	\$ 234	\$ -	\$ 2,821
Due to Shepherd University	-	417,332	-	417,332
Accrued interest	-	18,600	-	18,600
Custodial liabilities	788,749	-	-	788,749
Gift annuities payable	93,441	-	-	93,441
Loan payable, net	-	21,418,621	-	21,418,621
Total Liabilities	884,777	21,854,787	-	22,739,564
Net Assets				
Net assets without donor restrictions				
Undesignated (deficit)	(423,205)	(1,422,125)	-	(1,845,330)
Designated	79,454	-	-	79,454
Net assets with donor restrictions				
Restricted for a specific purpose	9,555,753	-	-	9,555,753
Restricted in perpetuity	21,383,830	-	-	21,383,830
Total Net Assets	30,595,832	(1,422,125)	-	29,173,707
TOTAL LIABILITIES AND NET ASSETS	\$ 31,480,609	\$ 20,432,662	\$ -	\$ 51,913,271

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	\$ 3,529,407	\$ 1,080,165	\$ -	\$ 4,609,572
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
Loans payable, net	-	21,740,990	-	21,740,990
Total Liabilities	970,832	22,767,816	-	23,738,648
Net Assets				
Net assets without donor restrictions				
Undesignated	(101,209)	(1,182,558)	-	(1,283,767)
Designated	59,126	-	-	59,126
Net assets with donor restrictions				
Restricted for a specific purpose	8,966,328	-	-	8,966,328
Restricted in perpetuity	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 Activities
Year Ended June 30, 2019

	Shepherd University Foundation, Inc.	Shepherd University Foundation Supporting Organization	Eliminations	Shepherd University Foundation, Inc. and Supporting Organization
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS				
SUPPORT AND REVENUE				
Potomac Place rental income, net of waivers	\$ -	\$ 1,927,856	\$ -	\$ 1,927,856
Cash contributions	3,050	-	-	3,050
Other revenue	23,858	3,068	-	26,926
Net investment return	-	1,484	-	1,484
Transfers	406,872	-	-	406,872
Net assets released from restrictions	2,307,590	-	-	2,307,590
	<u>2,741,370</u>	<u>1,932,408</u>	<u>-</u>	<u>4,673,778</u>
Total Revenue and Other Support				
	<u>2,741,370</u>	<u>1,932,408</u>	<u>-</u>	<u>4,673,778</u>
EXPENSES				
Program Expenses	2,497,340	2,141,339	-	4,638,679
General and Administrative	545,696	30,636	-	576,332
	<u>3,043,036</u>	<u>2,171,975</u>	<u>-</u>	<u>5,215,011</u>
Total Expenses				
	<u>3,043,036</u>	<u>2,171,975</u>	<u>-</u>	<u>5,215,011</u>
Change In Net Assets Without Donor Restriction	<u>(301,666)</u>	<u>(239,567)</u>	<u>-</u>	<u>(541,233)</u>
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS				
SUPPORT AND REVENUE				
Cash contributions	2,564,675	-	-	2,564,675
Stock contributions	192,730	-	-	192,730
Other non-cash contributions	36,886	-	-	36,886
Other revenue	29,076	-	-	29,076
Net investment return	1,145,495	-	-	1,145,495
Transfers	(406,872)	-	-	(406,872)
Net assets released from restrictions	(2,307,590)	-	-	(2,307,590)
	<u>1,254,400</u>	<u>-</u>	<u>-</u>	<u>1,254,400</u>
Change In Net Assets With Donor Restriction				
	<u>1,254,400</u>	<u>-</u>	<u>-</u>	<u>1,254,400</u>
Increase (Decrease) In Net Assets	<u>952,734</u>	<u>(239,567)</u>	<u>-</u>	<u>713,167</u>
NET ASSETS, BEGINNING OF YEAR	<u>29,643,098</u>	<u>(1,182,558)</u>	<u>-</u>	<u>28,460,540</u>
NET ASSETS, END OF YEAR	<u>\$ 30,595,832</u>	<u>\$ (1,422,125)</u>	<u>\$ -</u>	<u>\$ 29,173,707</u>

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 and Supporting Organization
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS				
SUPPORT AND REVENUE				
Potomac Place rental income, net of waivers	\$ -	\$ 1,838,363	\$ -	\$ 1,838,363
Cash contributions	600	-	-	600
Other revenue	22,430	456	-	22,886
Net investment return	568,735	25,238	-	593,973
Transfers	5,888,317	-	-	5,888,317
Net assets released from restrictions	2,217,650	-	-	2,217,650
	<u>8,697,732</u>	<u>1,864,057</u>	<u>-</u>	<u>10,561,789</u>
Total Revenue and Other Support				
EXPENSES				
Program Expenses	2,422,404	2,657,476	-	5,079,880
General and Administrative	514,163	15,340	-	529,503
	<u>2,936,567</u>	<u>2,672,816</u>	<u>-</u>	<u>5,609,383</u>
Total Expenses				
Change In Net Assets Without Donor Restriction	<u>5,761,165</u>	<u>(808,759)</u>	<u>-</u>	<u>4,952,406</u>
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS				
SUPPORT AND REVENUE				
Cash contributions	2,211,846	-	-	2,211,846
Stock contributions	113,000	-	-	113,000
Other non-cash contributions	183,988	-	-	183,988
Other revenue	30,906	-	-	30,906
Net investment return	653,292	-	-	653,292
Transfers	(5,888,317)	-	-	(5,888,317)
Net assets released from restrictions	(2,217,650)	-	-	(2,217,650)
	<u>(4,912,935)</u>	<u>-</u>	<u>-</u>	<u>(4,912,935)</u>
Change in Net Assets With Donor Restrictions				
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 Cash Flows
Year Ended June 30, 2019

	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	\$ 952,734	\$ (239,567)	\$ -	\$ 713,167
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:				
Net realized and unrealized (gains) on investments	(562,014)	-	-	(562,014)
Depreciation	8,331	704,619	-	712,950
Non-cash interest expense associated with debt issuance costs	-	820	-	820
Non-cash stock contributions received	(192,730)	-	-	(192,730)
Decrease in pledges receivables, net of discount	304,602	-	-	304,602
Decrease in accounts receivable	-	3,845	-	3,845
(Increase) in accrued interest receivable	(1,319)	-	-	(1,319)
(Increase) in prepaid expenses	(5,000)	(2,595)	-	(7,595)
(Increase) in interest in life estate	(18,137)	-	-	(18,137)
(Decrease) in accounts payable	(13,079)	(715)	-	(13,794)
(Decrease) in net due to (due from) Shepherd University	-	(615,440)	-	(615,440)
(Decrease) in accrued interest payable	-	(260)	-	(260)
(Decrease) in custodial liabilities	(58,092)	-	-	(58,092)
Net Cash Provided By (Used In) Operating Activities	<u>415,296</u>	<u>(149,293)</u>	<u>-</u>	<u>266,003</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of investments	5,528,817	-	-	5,528,817
Purchases of investments	(7,181,585)	-	-	(7,181,585)
Gift annuity payments	(14,884)	-	-	(14,884)
Net Cash (Used In) Investing Activities	<u>(1,667,652)</u>	<u>-</u>	<u>-</u>	<u>(1,667,652)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Payment of loan origination costs	-	(23,000)	-	(23,000)
Repayment of loan borrowings	-	(300,189)	-	(300,189)
Net Cash (Used In) Financing Activities	<u>-</u>	<u>(323,189)</u>	<u>-</u>	<u>(323,189)</u>
Net (Decrease) In Cash and Cash Equivalents	(1,252,356)	(472,482)	-	(1,724,838)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,529,407</u>	<u>1,080,165</u>	<u>-</u>	<u>4,609,572</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,277,051</u>	<u>\$ 607,683</u>	<u>\$ -</u>	<u>\$ 2,884,734</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the year for interest was \$621,903.

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 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>

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 residence hall building construction costs.



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, 2019 and 2018, 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, 2019.

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 Keorns + Company, LLC

Hagerstown, Maryland
September 5, 2019