

Consolidated
Financial
Statements

June 30,
2021

Shepherd University
Foundation, Inc. and
Supporting Organization

CONTENTS

	PAGE
OFFICERS AND BOARD OF DIRECTORS OF SHEPHERD UNIVERSITY FOUNDATION, INC.	
INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS	1-2
FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6-29
SUPPLEMENTARY INFORMATION	
Consolidating Statement of Financial Position – June 30, 2021	30
Consolidating Statement of Financial Position – June 30, 2020	31
Consolidating Statement of Activities – Year Ended June 30, 2021	32
Consolidating Statement of Activities – Year Ended June 30, 2020	33
Consolidating Statement of Cash Flows – Year Ended June 30, 2021	34
Consolidating Statement of Cash Flows – Year Ended June 30, 2020	35
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 <i>GOVERNMENT AUDITING STANDARDS</i>	36-37

SHEPHERD UNIVERSITY FOUNDATION, INC.

Officers

<u>Name</u>	<u>Position</u>
Christopher S. Colbert '95	President
D. Benjamin (Ben) Deuell, DO '08	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>
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. Janine Sam	2021
Pat Moler Egle '60	2022
Robert H. Jensenius '72	2022
Kenneth J. Boone '76	2022
D. Benjamin Deuell '08	2022
Dr. Jason Best	2022
Christopher K. Robertson '89	2022
Christopher S. Colbert '95	2023
Victoria M. Johnston '96	2023
Matthew P. Knott '96	2023
Timothy B. McShea '80	2023
Brian K. Jackson '87	2023
Tammy Gill '18	2023
J. David Rickard '56	2024
Mary Elizabeth (Liz) Oates	2024
W. Gregory (Greg) Snellings '91	2024
Dr. Heidi M. Hanrahan	2024
Karl L. Wolf '70	2024
James S. Scott '88	2024

Directors Emeriti

Ramon A. Alvarez '62
Allen L. Lueck '67
Susan Mentzer-Blair '72
Jerry P. Kerr '68
Kenneth E. Harbaugh

Directors Emeriti

Dr. James A. Butcher
Dr. Jane Ikenberry-Dorrier '65
Elizabeth S. Lowe '52
David T. Newlin '76
Michael A. Smith '89

Directors at Large

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, 2021 and 2020, 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, 2021 and 2020, 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.

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 2, 2021, 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 2, 2021

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Consolidated Statements of Financial Position
June 30, 2021 and 2020

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Consolidated Statements of Activities
Years Ended June 30, 2021 and 2020

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Consolidated Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 7,037,103	\$ 608,663
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net realized and unrealized (gains) losses on investments	(7,206,844)	488,171
Depreciation	712,382	712,947
Non-cash interest expense associated with debt issuance costs	1,262	1,262
Non-cash stock contributions received	(380,618)	(158,369)
Decrease in pledges receivables, net of discount	899,602	632,526
Decrease in accounts receivable	4,663	3,278
(Increase) decrease in accrued interest receivable	1,514	(1,196)
(Increase) in prepaid expenses	(6,294)	(713)
(Increase) in interest in life estate	(19,351)	(18,735)
Increase (decrease) in accounts payable	(11,580)	11,391
(Decrease) in net due to (due from) Shepherd University	(235,468)	(44,794)
(Decrease) in accrued interest payable	(18,333)	(267)
Increase in custodial liabilities	217,814	164,213
	<u>995,852</u>	<u>2,398,377</u>
Net Cash Provided By Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	6,926,027	10,055,576
Purchases of investments	(7,186,250)	(11,392,866)
Gift annuity payments	(8,369)	(11,795)
	<u>(268,592)</u>	<u>(1,349,085)</u>
Net Cash (Used In) Investing Activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of loan borrowings	(129,847)	(308,934)
	<u>(129,847)</u>	<u>(308,934)</u>
Net Cash (Used In) Financing Activities		
Net Increase In Cash and Cash Equivalents	597,413	740,358
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,625,092</u>	<u>2,884,734</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 4,222,505</u>	<u>\$ 3,625,092</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 623,727	\$ 613,417

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 \$132,043 and \$83,923 at June 30, 2021 and 2020, 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 United States generally accepted accounting principles (U.S. GAAP). Under U.S. GAAP, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the consolidated statements of financial position. Unrealized gains and losses are included in the changes in net assets.

Contributions

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

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pledges Receivable

Pledges are recorded as revenue when received. It is the Foundation's policy to evaluate individual pledges annually to determine collectability. Pledges deemed uncollectable are written off as part of the change in net assets in the year such determination is made. The present value adjustment for pledges receivable is calculated by determining the present value of the future contributions expected to be received, using a discount rate of 6%.

Property and Equipment

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

	<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 of loan costs associated with this permanent financing was incurred. These costs are being amortized using the straight-line method over the life of the related debt, which is 40 years.

Advertising

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

Functional Expenses

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

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, 2021 and 2020, management feels all receivables will be collected and therefore, has not established an allowance for doubtful accounts.

Adoption of New Accounting Standard – Revenue Recognition

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

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

Transfers

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax Exempt Status

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

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

Use of Estimates in the Preparation of Consolidated Financial Statements

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

Concentrations of Credit Risk

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

Statement of Cash Flows

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

Reclassifications

Certain reclassifications of amounts previously reported have been made in the accompanying financial statements in order to make the conform to the classifications used for the year ended June 30, 2021.

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risks and Uncertainties

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

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

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

Recent Accounting Pronouncements

In February 2016, FASB 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, 2022. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Foundation will be evaluating the effect 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 into a property replacement reserve account. The amount of the required monthly deposit was \$5,245 at June 30, 2021 and increases by 3% each February until the USDA loan is paid off.

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 2 CASH AND CASH EQUIVALENTS (CONTINUED)

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

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

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

NOTE 3 PLEDGES RECEIVABLE

Pledges receivable represent amounts due to the Foundation for legally enforceable pledges. These pledges are payable in full or in part through June 30, 2025.

Pledges receivable as of June 30, 2021 and 2020 consist of net assets with donor restriction. These unconditional promises to give are scheduled to be received by the Foundation over the next several years and are considered to be fully collectible.

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

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.

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

NOTE 4 INVESTMENTS (CONTINUED)

Investment securities at June 30, 2021 and 2020 are composed of the following:

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

At June 30, 2021 and 2020, there was \$1,352,054 and \$1,451,656, respectively, of cash and cash equivalents held in the brokerage accounts available to be invested by the Foundation.

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

Description	Cost	Accumulated Depreciation	Net Book Value
2021			
Land	\$ 40,000	\$ -	\$ 40,000
Building	<u>160,202</u>	<u>103,463</u>	<u>56,739</u>
	<u>\$ 200,202</u>	<u>\$ 103,463</u>	<u>\$ 96,739</u>
2020			
Land	\$ 40,000	\$ -	\$ 40,000
Building	<u>160,202</u>	<u>99,458</u>	<u>60,744</u>
	<u>\$ 200,202</u>	<u>\$ 99,458</u>	<u>\$ 100,744</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, 2021 and 2020, respectively.

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

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

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

NOTE 5 INTEREST IN LIFE ESTATE

During the year ended June 30, 2013, a donor established a life estate giving a remainder interest in a residential property to the Foundation, while retaining a life interest in the property. A life estate agreement is an arrangement whereby the donor transfers property to a charity while retaining the right to occupy and otherwise enjoy the full use of the property for the donor's choice of a term of years or the lifetime of the donor. The present commitment value of the property is based on the individual's life expectancy, which provides for a contribution value based upon the fact the donor is making a present commitment to a future charitable gift. The value of the property is based upon a third-party appraisal value at the date of transfer of \$447,500, discounted by the present value of the fair market rental value of the property at the time of the transfer of \$1,700 per month. The present value was calculated based upon the life expectancy of the donor as determined by the Social Security Life Expectancy tables and a 3.25% rate of return per the American Council on Gift Annuities. Assets held in life estates at June 30, 2021 and 2020 were \$425,812 and \$406,461, respectively, and are reported at the calculated present value on the Foundation's consolidated statement of financial position. Changes in the present value of the life estate will be reflected as changes in net assets with donor restriction in the Foundation's consolidated statement of activities.

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 6 PROPERTY AND EQUIPMENT

Equipment consists of the following:

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

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

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

NOTE 7 CUSTODIAL LIABILITIES

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

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

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 8 GIFT ANNUITIES

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

The liability associated with gift annuities payable amounted to \$73,277 and \$81,646 for the years ended June 30, 2021 and 2020, respectively.

NOTE 9 LOANS PAYABLE

As disclosed in Note 16, in June 2016 the Shepherd University Foundation Supporting Organization obtained interim financing for their student housing facility project through bond anticipation notes issued by the West Virginia Economic Development Authority. The Shepherd University Foundation Supporting Organization borrowed \$22,035,000 under Series 2016A bond anticipation notes with an interest rate of 1.20% and \$350,000 of Series 2016B taxable bond anticipation notes with an interest rate of 2.45%. The loans matured on February 1, 2018 and required semi-annual interest only payments on August 1 and February 1 of each loan year. On February 1, 2018, all outstanding interest and principal was repaid using the financing provided by the USDA rural development loan noted below. The bond anticipation notes 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 Foundation Supporting Organization borrowed \$21,892,000 under a 40-year USDA rural development loan to finance the Potomac Place student housing facility project. The USDA loan requires monthly principal and interest payments of \$76,841, including interest fixed at 2.875%. The loan is scheduled to mature on January 19, 2058. The USDA loan is secured by a leasehold deed of trust on the Potomac Place student housing facility, including all real property and any furniture, fixtures and equipment related to the housing facility. In addition, all revenues, accounts receivable and intangibles associated with the Potomac Place student housing facility have been assigned and pledged to the USDA. As disclosed in Note 2, under the USDA loan agreement, the Shepherd University Foundation Supporting Organization is required to maintain and make monthly deposits into a debt service reserve bank account and property replacement reserve bank account.

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 9 LOANS PAYABLE (CONTINUED)

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

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

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

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

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

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

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

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, 2021 and 2020:

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

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

NOTE 11 ENDOWMENTS

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

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 11 ENDOWMENTS (CONTINUED)

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.

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

Prior to the year ended June 30, 2021, the policy of the Foundation's Directors was to determine the amount of the annual income distribution based on the investment portfolio's total return for the previous fiscal year.

The endowments are invested consistent with an investment policy statement that is monitored by the Foundation's Directors. To satisfy the long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Funds in the endowment are primarily invested in U.S. Government Securities and managed equity funds with several investment managers using an investment philosophy that maintains equities in the range of 39.5% to 79.5% of the total fund, alternatives in the range of 0% to 20%, fixed income securities in the range of 0.5% to 40.5%, and cash in the range of 0% to 20%.

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 11 ENDOWMENTS (CONTINUED)

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

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

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

NOTE 12 FAIR VALUE MEASUREMENTS

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

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 12 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, 2021 and 2020 are as follows:

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 12 FAIR VALUE MEASUREMENTS (CONTINUED)

	Assets at Fair Value			
	Total	Level 1	Level 2	Level 3
2020				
Pledges receivable	\$ 2,174,919	\$ -	\$ -	\$ 2,174,919
Government securities				
US Treasuries	1,742,583	1,742,583	-	-
Agency Securities	108,158	-	108,158	-
Municipal Bonds	319,019	-	319,019	-
Mortgage Pools	238,923	-	238,923	-
Corporate Bonds	2,046,112	-	2,046,112	-
Mutual funds				
US Large Cap	6,912,699	6,912,699	-	-
US Small and Mid-Cap	1,969,500	1,969,500	-	-
International Equity	2,120,697	2,120,697	-	-
US Bond	983,754	983,754	-	-
Energy Limited Partnership	553,096	553,096	-	-
International Bond	675,164	675,164	-	-
High-Yield Bond	500,021	500,021	-	-
REITs	548,665	548,665	-	-
Options-Based Equity	1,282,543	1,282,543	-	-
Diversified Alternatives	2,258,218	2,258,218	-	-
Stocks				
US Small and Mid-Cap	857,340	857,340	-	-
US Large Cap	294,457	294,457	-	-
International Equity	1,269,020	1,269,020	-	-
Total Assets in the Fair Value Hierarchy	<u>26,854,888</u>	<u>21,967,757</u>	<u>2,712,212</u>	<u>2,174,919</u>
Investments Measured at Net Asset Value ^(a)				
Ironwood Fund	1,040,056	-	-	-
Golub Fund	450,000	-	-	-
	<u>1,490,056</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets at Fair Value	<u>\$ 28,344,944</u>	<u>\$ 21,967,757</u>	<u>\$ 2,712,212</u>	<u>\$ 2,174,919</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 12 FAIR VALUE MEASUREMENTS (CONTINUED)

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

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

Investments Measured Using the Net Asset Value per Share Practical Expedient

The following table summarizes investments for which fair value is measured using the net asset value per share practical expedient as of June 30, 2021 and 2020.

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 12 FAIR VALUE MEASUREMENTS (CONTINUED)

- (a) The Ironwood Institutional Multi-Strategy Fund, LLC (Ironwood Fund) is a speculative fund of funds. The Ironwood Fund's investment objective is capital appreciation with limited variability of returns. The Ironwood Fund attempts to achieve this objective by allocating capital among a number of pooled investment vehicles that are generally organized in non-U.S. jurisdictions and classified as corporations for U.S. federal income tax purposes. Each investment vehicle is managed by an independent investment manager pursuant to various alternative investment strategies, including relative value; market neutral and low net equity; event-driven; and distressed and credit securities.
- (b) The investment in Golub Capital Partners International 12, L.P. (Golub Fund) represents a limited partnership interest in a privately held speculative hedge fund. The Golub Fund's investment objective is to achieve attractive risk-adjusted returns relative to more liquid fixed income alternatives, with emphasis on current income and preservation of capital. The Golub Fund attempts to achieve this objective primarily by investing in senior secured, floating rate middle market loans, through wholly and partially owned holding companies and other investment vehicles. Most investment assets will be leveraged in the form of collateralized loan obligations and credit facilities. The Golub Fund plans to continue until July 1, 2028 and return all capital prior to that date at the general partner's discretion. Withdrawals of partnership interests generally are not permitted except in limited circumstances.

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

NOTE 13 EMPLOYEE RETIREMENT PLAN

The Foundation participates in the TIAA - CREF retirement plan. The Foundation contributes to the plan based on a dollar for dollar match of the contributions of full-time employees up to 6%. The cost recognized during the years ended June 30, 2021 and 2020 was \$13,116 and \$12,987, respectively.

NOTE 14 CONDITIONAL PROMISES TO GIVE

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

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 \$1,888,719 and \$2,737,950 for the years ended June 30, 2021 and 2020, respectively.

The Foundation utilizes space owned by the University but does not pay rent. In-kind revenue and expense of \$12,600 has been recorded for the use of this space for the years ended June 30, 2021 and 2020, respectively.

In August 2017, the Shepherd University Foundation Supporting Organization entered into an agreement to lease 1,490 square feet on the ground floor of the Potomac Place student housing facility to the University for the purpose of operating a food service market to serve the students of the facility. The original lease agreement expired on June 30, 2020. Due to COVID-19, the housing facility was closed and the space was not leased from July 1, 2020 until a new lease agreement was executed in August 2020. The new lease commenced on August 10, 2020 and is scheduled to end on June 30, 2023. The required monthly payments under both of the above leases was \$2,700. Total rental revenue from these lease agreements amounted to \$28,980 and \$32,400 for the years ended June 30, 2021 and 2020, respectively.

As disclosed in Note 16, the Shepherd University Foundation Supporting Organization has entered into a ground lease agreement and management agreement with the University as part of the student housing facilities project. Total expense incurred under these agreements amounted to \$57,701 and \$0 for the years ended June 30, 2021 and 2020, respectively. As part of the management agreement, the University acts as the Supporting Organization's exclusive agent for the operation, management and maintenance of the student housing facility project. As a result, the University collects payments from students and pays operating expenses associated with the student housing facility project on behalf of the Supporting Organization. Amounts due from the University related to the collection of student receivables amounted to \$694 and \$881 respectively. Amounts due to the University for reimbursement of operating expenses, reimbursements of credits paid to students and payment of the ground lease fee noted above amounted to \$102,736 and \$338,391, respectively. The amount due to the University for the year ended June 30, 2020 included a reimbursement of \$294,016 for student housing refund credits issued as a result of Potomac Place closures caused by the COVID-19 pandemic.

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION

Notes to Consolidated Financial Statements

NOTE 16 POTOMAC PLACE STUDENT HOUSING FACILITY PROJECT

Shepherd University Foundation Supporting Organization designed and constructed Potomac Place, a 298 bed student housing facility on the Shepherd University campus. As disclosed in Note 9, the Supporting Organization permanently financed the construction costs of Potomac Place with a 40-year rural development loan from the United States Department of Agriculture. The Supporting Organization owns the building and associated equipment and furnishings and has entered into a ground lease with Shepherd University. The ground lease will expire upon the repayment of all associated outstanding debt borrowed by the Supporting Organization. Upon the expiration of the lease, the building and associated equipment and furnishings will be transferred to Shepherd University. The ground lease agreement requires annual rental payments due 30 days after the receipt of the Supporting Organization's audited financial statements.

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

The Supporting Organization has entered into a management agreement with Shepherd University. The management agreement appointed Shepherd University as the Supporting Organization's exclusive agent for the construction, operation, management and maintenance of Potomac Place. No additional fees, outside of the ground lease payments, are payable to Shepherd University for these services.

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

	2021	2020
Single Bed Rate - Term	\$ 3,317.00	\$ 4,479.00
Double Bed Rate - Term	\$ 3,317.00	\$ 3,317.00
Single Bed Rate - Daily	\$ 29.10	\$ 39.29
Double Bed Rate - Daily	\$ 29.10	\$ 29.10
Total Students Served - Fall Semester	214	265
Total Students Served - Spring Semester	197	239
Student Residence Hall Room Revenue During School Year	\$ 1,347,439	\$ 1,447,709
Residence Hall Rental for Summer Conferences	-	39,767
Rental Revenue from SU for Food Market	28,980	32,400
Late Fees and Fees for Damages	866	4,121
Less: Student Residence Hall Room Waivers	<u>(46,438)</u>	<u>(50,453)</u>
Total Net Residence Hall Room Rental for Fiscal Year	<u>\$ 1,330,847</u>	<u>\$ 1,473,544</u>
Total cash collected on current year accounts, net of refund credits issued for COVID-19 related closures of \$0 and \$294,016 in 2021 and 2020, respectively.	<u>\$ 1,307,453</u>	<u>\$ 1,445,737</u>

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, 2021 and 2020 is as follows:

	Program Activities			Support Activities	
	Scholarships and College Support	Dormitory Operations	Total Program Expenses	General and Administrative Expenses	Total
2021					
Scholarships and awards	\$ 1,844,838	\$ -	\$ 1,844,838	\$ -	\$ 1,844,838
College support	43,881	-	43,881	-	43,881
Salaries	40,633	111,988	152,621	349,047	501,668
Payroll taxes and benefits	5,547	21,839	27,386	63,655	91,041
Student activities	-	1,343	1,343	-	1,343
Equipment and supplies	-	1,530	1,530	-	1,530
Depreciation	-	704,618	704,618	7,764	712,382
Insurance	-	63,968	63,968	6,869	70,837
Contractual services	-	14,818	14,818	-	14,818
Telephone	-	2,461	2,461	1,470	3,931
Repairs and maintenance	-	46,157	46,157	-	46,157
Utilities	-	178,188	178,188	-	178,188
Ground rental	-	57,701	57,701	-	57,701
Interest expense	-	606,656	606,656	-	606,656
Printing and reproduction costs	-	-	-	24,800	24,800
Bank fees and administrative expense	-	-	-	10,571	10,571
Rent	-	-	-	12,600	12,600
Office supplies and postage	-	-	-	10,631	10,631
Changes in gift annuities	-	-	-	10,631	10,631
Professional fees	-	-	-	57,558	57,558
Staff training	-	-	-	-	-
Program development	-	-	-	19,024	19,024
Technology	-	-	-	4,761	4,761
Write-off of uncollectible pledge	-	-	-	20,000	20,000
Miscellaneous	-	361	361	1,989	2,350
TOTAL EXPENSES	\$ 1,934,899	\$ 1,811,628	\$ 3,746,527	\$ 601,370	\$ 4,347,897
2020					
Scholarships and awards	\$ 2,650,418	\$ -	\$ 2,650,418	\$ -	\$ 2,650,418
College support	87,532	-	87,532	-	87,532
Salaries	40,633	105,389	146,022	345,912	491,934
Payroll taxes and benefits	5,499	20,118	25,617	63,224	88,841
Student activities	-	1,239	1,239	-	1,239
Equipment and supplies	-	228	228	-	228
Depreciation	-	704,617	704,617	8,330	712,947
Insurance	-	63,666	63,666	7,229	70,895
Contractual services	-	13,614	13,614	-	13,614
Telephone	-	2,472	2,472	1,558	4,030
Repairs and maintenance	-	45,039	45,039	-	45,039
Utilities	-	166,545	166,545	-	166,545
Interest expense	-	614,152	614,152	-	614,152
Printing and reproduction costs	-	-	-	20,827	20,827
Bank fees and administrative expense	-	-	-	10,380	10,380
Rent	-	-	-	12,600	12,600
Office supplies and postage	-	-	-	13,530	13,530
Changes in gift annuities	-	-	-	10,062	10,062
Professional fees	-	-	-	51,606	51,606
Staff training	-	-	-	75	75
Program development	-	-	-	23,661	23,661
Technology	-	-	-	4,171	4,171
Miscellaneous	-	182	182	2,361	2,543
TOTAL EXPENSES	\$ 2,784,082	\$ 1,737,261	\$ 4,521,343	\$ 575,526	\$ 5,096,869

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:

	2021	2020
Accounts receivable	\$ 23,481	\$ 27,894
Due from Shepherd University	694	881
	<u>\$ 24,175</u>	<u>\$ 28,775</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 sources of liquidity at its disposal, including accounts receivable and amounts due from Shepherd University. Total cash of \$153,085 and \$366,654 at June 30, 2021 and 2020, respectively, is excluded due to the fact that it represents debt service and property replacement reserves required to be maintained under the Foundation's USDA loan agreement. Also, cash in the amounts of \$4,069,420 and \$3,258,438 at June 30, 2021 and 2020, respectively, is excluded due to it being restricted for custodial liabilities and donor-restricted funds held at the Foundation. Accounts receivable in the amounts of \$0 and \$250 at June 30, 2021 and 2020, respectively, are excluded due to it being related to donor-restricted funds held at the Foundation. Accrued interest receivable in the amounts of \$30,638 and \$32,152 at June 30, 2021 and 2020, respectively and investments in the amounts of \$34,712,717 and \$26,865,032 at June 30, 2021 and 2020, respectively, are excluded due to the fact that these funds are the restricted portion of donor-restricted funds held at the Foundation. The remaining \$96,739 and \$100,744 at June 30, 2021 and 2020, respectively, of investments is excluded as it 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, scholarship disbursements from funds in excess of the actual unrealized and realized investment earnings and operating expenses exceeding support and revenue without donor restriction. In addition, excess of expenses over revenues generated from the Potomac Place student facility project has contributed to the net assets without donor restriction deficit. In order to reduce the deficit and generate positive net assets without donor restriction, the Foundation will need to generate gains on their investments for consecutive years, reduce the level of annual fund disbursements, reduce operating expenses or generate revenues from another outside source. The balance of the net assets without donor restriction deficit was \$(3,453,406) and \$(2,834,798) for the years ended June 30, 2021 and 2020, respectively. Of this deficit, \$(1,207,528) and \$(1,110,725) related to Shepherd University Foundation Inc. for the years ended June 30, 2021 and 2020, respectively and \$(2,245,878) and \$(1,724,073) related the Shepherd University Foundation Supporting Organization for the years ended June 30, 2021 and 2020, respectively.

NOTE 20 PAYCHECK PROTECTION PROGRAM LOAN

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

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

NOTE 21 SUBSEQUENT EVENTS

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

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

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Consolidating Statement of Financial Position
June 30, 2021

	Shepherd University Foundation, Inc.	Shepherd University Foundation Supporting Organization	Eliminations	Shepherd University Foundation, Inc. and Supporting Organization
ASSETS				
Cash and cash equivalents	\$ 3,763,759	\$ 458,746	\$ -	\$ 4,222,505
Pledges receivable, net of present value adjustment	1,275,317	-	-	1,275,317
Accounts receivable	87	23,394	-	23,481
Due from Shepherd University	-	694	-	694
Accrued interest receivable	30,638	-	-	30,638
Prepaid expenses	6,582	21,039	-	27,621
Investments	34,809,456	-	-	34,809,456
Interest in life estate	425,812	-	-	425,812
Property and equipment, net	385	18,335,349	-	18,335,734
TOTAL ASSETS	\$ 40,312,036	\$ 18,839,222	\$ -	\$ 59,151,258
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable	\$ 2,632	\$ -	\$ -	\$ 2,632
Due to Shepherd University	-	102,736	-	102,736
Accrued interest	-	-	-	-
Custodial liabilities	1,170,776	-	-	1,170,776
Gift annuities payable	73,277	-	-	73,277
Loan payable, net	-	20,982,364	-	20,982,364
Total Liabilities	1,246,685	21,085,100	-	22,331,785
Net Assets				
Net assets without donor restrictions				
Undesignated (deficit)	(1,207,528)	(2,245,878)	-	(3,453,406)
Designated	132,043	-	-	132,043
Net assets with donor restrictions				
Restricted for a specific purpose	16,296,534	-	-	16,296,534
Restricted in perpetuity	23,844,302	-	-	23,844,302
Total Net Assets	39,065,351	(2,245,878)	-	36,819,473
TOTAL LIABILITIES AND NET ASSETS	\$ 40,312,036	\$ 18,839,222	\$ -	\$ 59,151,258

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Consolidating Statement of Financial Position
June 30, 2020

	Shepherd University Foundation, Inc.	Shepherd University Foundation Supporting Organization	Eliminations	Shepherd University Foundation, Inc. and Supporting Organization
ASSETS				
Cash and cash equivalents	\$ 2,964,892	\$ 660,200	\$ -	\$ 3,625,092
Pledges receivable, net of present value adjustment	2,174,919	-	-	2,174,919
Accounts receivable	337	27,807	-	28,144
Due from Shepherd University	-	881	-	881
Accrued interest receivable	32,152	-	-	32,152
Prepaid expenses	6,582	14,745	-	21,327
Investments	26,965,776	-	-	26,965,776
Interest in life estate	406,461	-	-	406,461
Property and equipment, net	4,144	19,039,967	-	19,044,111
TOTAL ASSETS	\$ 32,555,263	\$ 19,743,600	\$ -	\$ 52,298,863
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable	\$ 14,212	\$ -	\$ -	\$ 14,212
Due to Shepherd University	-	338,391	-	338,391
Accrued interest	-	18,333	-	18,333
Custodial liabilities	952,962	-	-	952,962
Gift annuities payable	81,646	-	-	81,646
Loans payable, net	-	21,110,949	-	21,110,949
Total Liabilities	1,048,820	21,467,673	-	22,516,493
Net Assets				
Net assets without donor restrictions				
Undesignated (deficit)	(1,110,725)	(1,724,073)	-	(2,834,798)
Designated	83,923	-	-	83,923
Net assets with donor restrictions				
Restricted for a specific purpose	9,192,792	-	-	9,192,792
Restricted in perpetuity	23,340,453	-	-	23,340,453
Total Net Assets	31,506,443	(1,724,073)	-	29,782,370
TOTAL LIABILITIES AND NET ASSETS	\$ 32,555,263	\$ 19,743,600	\$ -	\$ 52,298,863

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Consolidating Statement of Activities
Year Ended June 30, 2021

	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	\$ -	\$ 1,330,847	\$ -	\$ 1,330,847
Other revenue	24,472	879	-	25,351
Net investment return	-	619	-	619
Transfers for SUF management fees earned	758,592	-	-	758,592
Other transfers	(63,839)	-	-	(63,839)
Net assets released from restrictions	1,725,839	-	-	1,725,839
	<u>2,445,064</u>	<u>1,332,345</u>	<u>-</u>	<u>3,777,409</u>
Total Revenue and Other Support				
	<u>2,445,064</u>	<u>1,332,345</u>	<u>-</u>	<u>3,777,409</u>
EXPENSES				
Program expenses	1,934,899	1,811,628	-	3,746,527
General and administrative	558,848	42,522	-	601,370
	<u>2,493,747</u>	<u>1,854,150</u>	<u>-</u>	<u>4,347,897</u>
Total Expenses				
	<u>2,493,747</u>	<u>1,854,150</u>	<u>-</u>	<u>4,347,897</u>
Change In Net Assets Without Donor Restriction	<u>(48,683)</u>	<u>(521,805)</u>	<u>-</u>	<u>(570,488)</u>
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS				
SUPPORT AND REVENUE				
Cash contributions	1,727,858	-	-	1,727,858
Stock contributions	380,618	-	-	380,618
Other non-cash contributions	137,296	-	-	137,296
Other revenue	47,522	-	-	47,522
Net investment return	7,734,889	-	-	7,734,889
Transfers for SUF management fees earned	(758,592)	-	-	(758,592)
Other transfers	63,839	-	-	63,839
Net assets released from restrictions	(1,725,839)	-	-	(1,725,839)
	<u>7,607,591</u>	<u>-</u>	<u>-</u>	<u>7,607,591</u>
Change In Net Assets With Donor Restriction				
	<u>7,607,591</u>	<u>-</u>	<u>-</u>	<u>7,607,591</u>
Increase (Decrease) In Net Assets	<u>7,558,908</u>	<u>(521,805)</u>	<u>-</u>	<u>7,037,103</u>
NET ASSETS, BEGINNING OF YEAR	<u>31,506,443</u>	<u>(1,724,073)</u>	<u>-</u>	<u>29,782,370</u>
NET ASSETS, END OF YEAR	<u>\$ 39,065,351</u>	<u>\$ (2,245,878)</u>	<u>\$ -</u>	<u>\$ 36,819,473</u>

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Consolidating Statement of Activities
Year Ended June 30, 2020

	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	\$ -	\$ 1,473,544	\$ -	\$ 1,473,544
Other revenue	92,491	2,583	-	95,074
Net investment return	-	1,305	-	1,305
Transfers for SUF management fees earned	34,224	-	-	34,224
Other transfers	(77,676)	-	-	(77,676)
Net assets released from restrictions	2,585,399	-	-	2,585,399
	<u>2,634,438</u>	<u>1,477,432</u>	<u>-</u>	<u>4,111,870</u>
Total Revenue and Other Support				
EXPENSES				
Program expenses	2,784,082	1,737,261	-	4,521,343
General and administrative	533,407	42,119	-	575,526
	<u>3,317,489</u>	<u>1,779,380</u>	<u>-</u>	<u>5,096,869</u>
Total Expenses				
Change In Net Assets Without Donor Restriction	<u>(683,051)</u>	<u>(301,948)</u>	<u>-</u>	<u>(984,999)</u>
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS				
SUPPORT AND REVENUE				
Cash contributions	3,791,880	-	-	3,791,880
Stock contributions	158,369	-	-	158,369
Other non-cash contributions	21,883	-	-	21,883
Other revenue	16,245	-	-	16,245
Net investment return	147,232	-	-	147,232
Transfers for SUF management fees earned	(34,224)	-	-	(34,224)
Other transfers	77,676	-	-	77,676
Net assets released from restrictions	(2,585,399)	-	-	(2,585,399)
	<u>1,593,662</u>	<u>-</u>	<u>-</u>	<u>1,593,662</u>
Change in Net Assets With Donor Restrictions				
Increase (Decrease) In Net Assets	<u>910,611</u>	<u>(301,948)</u>	<u>-</u>	<u>608,663</u>
NET ASSETS, BEGINNING OF YEAR				
	<u>30,595,832</u>	<u>(1,422,125)</u>	<u>-</u>	<u>29,173,707</u>
NET ASSETS, END OF YEAR				
	<u>\$ 31,506,443</u>	<u>\$ (1,724,073)</u>	<u>\$ -</u>	<u>\$ 29,782,370</u>

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Consolidating Statement of Cash Flows
Year Ended June 30, 2021

	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	\$ 7,558,908	\$ (521,805)	\$ -	\$ 7,037,103
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:				
to net cash provided by (used in) operating activities:				
Net realized and unrealized (gains) on investments	(7,206,844)	-	-	(7,206,844)
Depreciation	7,764	704,618	-	712,382
Non-cash interest expense associated with debt issuance costs	-	1,262	-	1,262
Non-cash stock contributions received	(380,618)	-	-	(380,618)
Decrease in pledges receivables, net of discount	899,602	-	-	899,602
Decrease in accounts receivable	250	4,413	-	4,663
Decrease in accrued interest receivable	1,514	-	-	1,514
(Increase) in prepaid expenses	-	(6,294)	-	(6,294)
(Increase) in interest in life estate	(19,351)	-	-	(19,351)
(Decrease) in accounts payable	(11,580)	-	-	(11,580)
(Decrease) in net due to (due from) Shepherd University	-	(235,468)	-	(235,468)
(Decrease) in accrued interest payable	-	(18,333)	-	(18,333)
Increase in custodial liabilities	217,814	-	-	217,814
Net Cash Provided By (Used In) Operating Activities	<u>1,067,459</u>	<u>(71,607)</u>	<u>-</u>	<u>995,852</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of investments	6,926,027	-	-	6,926,027
Purchases of investments	(7,186,250)	-	-	(7,186,250)
Gift annuity payments	(8,369)	-	-	(8,369)
Net Cash (Used In) Investing Activities	<u>(268,592)</u>	<u>-</u>	<u>-</u>	<u>(268,592)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of loan borrowings	-	(129,847)	-	(129,847)
Net Cash (Used In) Financing Activities	<u>-</u>	<u>(129,847)</u>	<u>-</u>	<u>(129,847)</u>
Net Increase (Decrease) In Cash and Cash Equivalents	798,867	(201,454)	-	597,413
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,964,892</u>	<u>660,200</u>	<u>-</u>	<u>3,625,092</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,763,759</u>	<u>\$ 458,746</u>	<u>\$ -</u>	<u>\$ 4,222,505</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the year for interest was \$623,727.

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
Consolidating Statement of Cash Flows
Year Ended June 30, 2020

	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	\$ 910,611	\$ (301,948)	\$ -	\$ 608,663
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:				
Net realized and unrealized losses on investments	488,171	-	-	488,171
Depreciation	8,330	704,617	-	712,947
Non-cash interest expense associated with debt issuance costs	-	1,262	-	1,262
Non-cash stock contributions received	(158,369)	-	-	(158,369)
Decrease in pledges receivables, net of discount	632,526	-	-	632,526
(Increase) decrease in accounts receivable	(250)	3,528	-	3,278
(Increase) in accrued interest receivable	(1,196)	-	-	(1,196)
(Increase) in prepaid expenses	-	(713)	-	(713)
(Increase) in interest in life estate	(18,735)	-	-	(18,735)
Increase (decrease) in accounts payable	11,625	(234)	-	11,391
(Decrease) in net due to (due from) Shepherd University	-	(44,794)	-	(44,794)
(Decrease) in accrued interest payable	-	(267)	-	(267)
Increase in custodial liabilities	164,213	-	-	164,213
Net Cash Provided By Operating Activities	<u>2,036,926</u>	<u>361,451</u>	<u>-</u>	<u>2,398,377</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of investments	10,055,576	-	-	10,055,576
Purchases of investments	(11,392,866)	-	-	(11,392,866)
Gift annuity payments	(11,795)	-	-	(11,795)
Net Cash (Used In) Investing Activities	<u>(1,349,085)</u>	<u>-</u>	<u>-</u>	<u>(1,349,085)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of loan borrowings	-	(308,934)	-	(308,934)
Net Cash (Used In) Financing Activities	<u>-</u>	<u>(308,934)</u>	<u>-</u>	<u>(308,934)</u>
Net Increase In Cash and Cash Equivalents	687,841	52,517	-	740,358
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,277,051</u>	<u>607,683</u>	<u>-</u>	<u>2,884,734</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,964,892</u>	<u>\$ 660,200</u>	<u>\$ -</u>	<u>\$ 3,625,092</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the year for interest was \$613,417.



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, 2021 and 2020, 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 2, 2021.

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) as a basis for designing 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 consolidated financial statements. 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 2, 2021