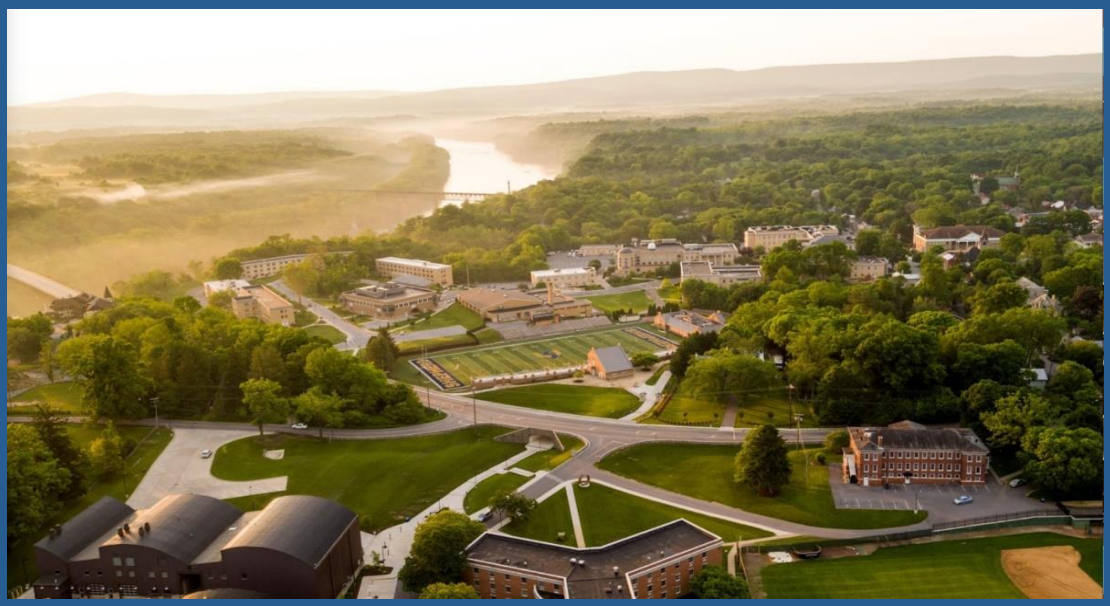
S H E P H E R D U N I V E R S I T Y

President: Dr. Mary J.C. Hendrix

Interim Report on Enrollment and Finances



Submitted to the
Higher Learning Commission
230 South LaSalle Street
Suite 7-500
Chicago, Illinois 60604

November 1, 2019

Shepherd University Interim Report on Enrollment and Finances
Nov 1, 2019 Table of Contents

Introduction

At the June 18, 2012 meeting of the Higher Learning Commission Institutional Actions Council (IAC), the IAC voted to reaffirm the accreditation of Shepherd University for the maximum time period of ten years, with the next comprehensive evaluation set for the 2021-22 academic year. Shepherd underwent a mid-term site visit for continuing accreditation from the HLC on March 7-8, 2016. The IAC action letter dated July 1, 2016 outlined the requirements for an interim report on enrollment and finances due October 2017. In response to that October 2017 interim report, the IAC action letter dated February 13, 2018 required an additional interim report on enrollment and finances to be submitted in November 2019. The November 2019 report "should include, at minimum, the following: 1) The institution's annual audited financial statements for FY2018 and FY2019; 2) Fall 2019 enrollment data and updated enrollment projections through Fall 2022; 3) The FY2020 operating budget with comparative data from FY2019 and budget projections through FY2022; 4) An updated strategic enrollment plan **or** institutional strategic plan showing strategies for enrollment and finances".

Recent Improvement of the CFI

Through the annual institutional update with the Commission, Shepherd University's Composite Financial Index had been "in the zone" or "below the zone" for several years. In response, a number of proactive initiatives designed to cut expenses, including energy savings, outsourcings of specific auxiliary functions, renegotiations of standing contractual agreements, and position reductions were implemented by the campus in starting in FY 2017 (elaboration provided later in the document). Shepherd was able to make significant improvement to its CFI in the most recent annual report, as seen in the table below.

Table 1: CFI as reported to HLC as part of Annual Reporting:
Institution: Shepherd University

2019 IU	2018 IU	2017 IU	2016 IU	2015 IU
1.1	(0.6)	(0.7)	(0.4)	0.7

Funding from the State of West Virginia

We note in the Shepherd University 2018-2023 Strategic Plan *Transforming Our Future: Implementing Change in an Era of Innovation* (Appendix A, Page 17) that "The fundamental shifts that have transformed the higher education landscape over the past decade have been driven primarily by demographic, economic, cultural, and political influences. Over the last five years, Shepherd has experienced a decline in full-time equivalent (FTE) students and a significant reduction in state appropriations. As the lowest funded public baccalaureate institution per FTE in West Virginia, Shepherd has become increasingly reliant on tuition, fee, and room and board revenue to fund basic operations as well as to fund operating cost

increases. In order to achieve our mission, add new initiatives, and address deferred maintenance, Shepherd must develop a financial model that meets current needs, allows for investments in the future, and builds a contingency reserve."

Of all the four-year institutions in West Virginia, Shepherd has historically been funded at the lowest rate per student/student FTE for more than two decades. With strong support from our Eastern Panhandle legislative delegation, a legislative mandate regarding more equitable funding was put forward:

West Virginia Code §18B-1B-4(d)
The Higher Education Policy Commission shall **examine the question of general revenue appropriations** to individual higher education institutions per student, and per credit hour, and by other relevant measures at all higher education institutions, including four-year baccalaureate institutions and the community and technical colleges, and on or before January 1, 2018, the Commission shall deliver its report to the Joint Committee on Government and Finance and the Legislative Oversight Commission on Education Accountability.

As noted in the September 2018 Financial Indicators report, there has been a lot of information in the state news regarding the WV Governor's Blue Ribbon Commission (BRC) and its work regarding higher education in the state of West Virginia that is pertinent to increased funding for Shepherd University (A collection of news articles related to the formation of the BRC is included as Appendix F, page 261.)

Despite the disagreement over the specifics of the proposed funding formula, or the exact future role of the state's Higher Education Policy Commission, there "remains a more broad endorsement of dividing an immediate $10 million appropriation from the State to West Virginia's colleges and universities in an effort to supplement cuts from past years." (*Source: WV Metro News, December 13, 2018).*

While the work of the BRC is not completed, a recommendation was presented to the state legislature when it began its session in mid-January 2019. Of the $10M appropriation from the WV Legislature to higher education in March 2019, Shepherd University ultimately gained an increase to its base budget/annual appropriation. The legislature has provided an increase to the University's appropriation in the amount of $2.7 million in FY2020 and an additional $312,287 to offset the added expense for the State-mandated 5% ($2,160) pay increase in FY2018 for all full-time State employees. It imperative that the University utilizes this additional funding to reduce (and ultimately eliminate) the deficit, invest in capital asset projects that have been delayed, and expend an appropriate level of resources to enhance and grow enrollment during these challenging times.

Fundraising and Grant Information

Fundraising: Preliminary information scheduled to be presented to the institutional Board of Governors in the University Development Annual Report in December 2019 indicates the following trends:

- Total new gifts and pledges, excluding grants, for FY2019 equaled $3.9M, a 66% increase over dollars raised for FY2018.
- New gifts and pledges, excluding grants, for FY2019 exceeded the five-year average of $2.5M and the three-year average of $3.2M.
- Private donations designated for annual funding totaled $2.6M, which exceeded FY 2018 gifts of $1.2M (116% increase).
- Gifts to endowments totaled $1.3M as compared to $745K for FY2018 (74% increase).
- Under donor categories, the total number of donors increased to 3,030 for FY2019, which is a 6.5% increase over 2018. Increases in the number of donors were across several programs and categories, but were specifically supported by new gifts to the Shepherd University Athletic Club, Shepherd Fund and Women Investing in Shepherd.

Grants: Shepherd has demonstrated experience securing and managing federal, state, and private grant funds. At present, Shepherd is managing a portfolio of more than $3.1 million in current and multiyear grants and contracts supporting research and programmatic activities. This funding includes state-level grants, federal grants from the Department of Health and Human Services, the National Science Foundation, U.S. Department of Education, and the U.S. Department of Agriculture, as well as several private foundations. Shepherd University recognizes the institutional enrichment cultivated by grant-supported activities and continues to provide travel funds, matching funds, and in-kind support and space for grant-supported projects and events and ensures that reassigned time is available for faculty to devote to sponsored activities.

Two of these grants include important funding for targeted student populations and support services. The institution's initial TRiO student support services grant was renewed in 2015 ($1.1M, with percentage increases of 4.25% and 4.5% over the last 2 years; the institution is in the process of writing a proposal for a second renewal) and addresses Shepherd's student demographic, more than 30% of whom are first-generation college students, have disabilities, or who meet income guidelines set by the granting agency. Shepherd also received a $1.2 million grant (in 2017, also with percentage increases of 4.25% and 4.5% over the last 2 years) from the U.S. Department of Education to operate an Upward Bound program over the next five years in Berkeley County's (neighboring county)

four high schools. The grant provides academic and college preparation support to economically disadvantaged high school students whose parents did not attend college. Information on the Shepherd student demographics and outcomes can be seen on the most recently available IPEDS report, which can be found at the following link*:* https://media.suweb.site/2018/12/IPEDSDFR2018_237792.pdf?v=1545071582)

Enrollment

The higher education landscape remains dynamic and uncertain in the mid-Atlantic region and in the three primary states bordering West Virginia to the north and east. Competition for first-time in college (FTIC) and transfer students remains at an all-time high. Early in 2019, Maryland and West Virginia passed legislation starting free community college tuition programs. While it is early, these programs are causing disruption and challenges to accurately predict and enroll FTIC and transfer students. Continuing undergraduate and graduate enrollments remain stable while FTIC and transfer students lagged when compared to the previous fall semester.

New Undergraduate Student Enrollment

Throughout the 2018-2019 recruiting cycle, Shepherd balanced its marketing and recruiting initiatives between West Virginia resident students and destination students residing in Maryland, Virginia, District of Columbia, and Pennsylvania. The number of applications and accepted students were reasonably consistent when compared to prior years. The conversion of students who paid an enrollment deposit and matriculated as enrolled was 7% lower than in prior years. The lower rate is an outcome of competition among public and private colleges and universities, free community college tuition programs, and increasing discount rates in primary recruiting markets. Shepherd's non-matriculated student survey data show that better financial aid and scholarship packages were among the primary factors in students choosing another university. FTIC student enrollment ended at 84% of target and transfer enrollment ended at 79% of target.

Continuing Undergraduate Student Enrollment

Shepherd's fall 2018 first-time, full-time cohort, fall-to-fall retention rate is 70.5%. This is a 1% increase over last year and the fourth consecutive year of increased retention rates. All continuing undergraduate degree-seeking students enrolled spring 2019 persisted to fall 2019 at 87%, four percent higher than last year. Contributing factors included holding to admission standards for entering cohorts, creating student success programs, and establishing last dollar funding which helps students in financial distress with their semester bill.

High School Dual Enrollment Students

In fall 2018, there were 65 high school dual-enrolled students taking classes at Shepherd. In fall 2019, the enrollment significantly increased to 158 students. High school seniors who qualify and attend any high school in Berkeley County, WV were eligible to take classes at the Shepherd University Martinsburg Center starting fall 2019. Enrollment on the main campus in Shepherdstown, WV has remained consistent with last year. This program has created a smooth pathway for students from high school to Shepherd. Of the 65 students enrolled in the fall 2018 cohort, 36% matriculated in fall 2019 as a degree-seeking student.

Graduate Student Enrollment

Graduate student enrollment remains relatively flat when comparing year over year. There was a slight increase in new graduate students when compared to the target. The master's program with the largest increase in new students (+10) was the Master of Arts in Teaching.

Table 2: Fall 2019 University Degree-Seeking Enrollment

Headcount by Student Type	Fall 2019 Census	Fall 2019 Targets	% of Target
Continuing UG	1886	1793	105.2%
New Freshman	483	575	84.0%
Re-admit	27	40	67.5%
New Transfer	237	300	79.0%
Continuing Graduate	114	100	114.0%
New Graduate Student	51	50	102.0%
Total Degree Seeking Enrollment	**2798**	**2858**	**97.9%**

Enrollment Projections

The methodology used since 2017 for projecting continuing undergraduate degree-seeking students and first-time in college (freshman) is proving to be a reliable process. Work continues to enhance the methodology used when projecting future student enrollments, factoring in demographic changes to high school populations, pricing, scholarships, and the competitive environment within higher education. Strategic enrollment management initiatives include greater investment in marketing and recruiting funding, investing in enhancing the Shepherd University brand and image, leveraging financial aid and scholarships, and offering greater course delivery modality options for students. The enrollment projection through fall 2022 will be to continue increasing student persistence and retention rates (noting that the decline in continuing undergraduate population between fall 2019 and 2020 is the effect of a smaller incoming class of FTIC students), along with increasing the number of new FTIC and transfer students.

Table 3: Enrollment Projections through Fall 2022

Headcount by Segment	**Fall 2019**	**Fall 2020**	**Fall 2021**	**Fall 2022**
Continuing Undergraduate	1886	1711	1674	1676
New First-time in College (Freshman)	483	575	600	625
New Transfer	237	260	275	285
Re-admit Students	27	30	30	30
Continuing Graduate	114	100	100	100
New Graduate	51	75	80	85
Total Degree Seeking	**2798**	**2751**	**2759**	**2801**
Non-degree Undergraduate & Graduate	830	800	800	800
Total University Enrollment	**3628**	**3551**	**3559**	**3601**

New Initiatives for fall 2019

Institutional Aid and Scholarships

- Increased the value of merit scholarships for resident students to be more competitive with our peer institution in West Virginia.
- Increased the value of the Metro Scholarship program and expanded the geographic eligibility footprint to all counties in Maryland.
- Through a collaborative effort with the Shepherd University Foundation, increased funding for the “Last Dollar Fund” to assist students who are in financial distress and at risk of withdrawing from the university.

New Student Marketing and Recruiting

- Increased investment in digital marketing and advertising geo-targeting key

counties in out-of-state markets. Running parallel direct-marketing campaigns, increasing communication contact with prospective students.

- Increased the number of search names to top-load the admissions funnel.
- Continue growing High School Dual Enrollment student population from all high schools in Berkeley and Jefferson County, West Virginia.

Student Success and Retention

- Shepherd Success Academy (SSA): There are 38 FTIC students in the fall 2019 cohort. Much like the fall 2018 cohort, the composition of students is distributed between regularly admitted students who meet academy criteria and provisionally admitted students who will be required to join the academy. The goal over the next few years is to expand the academy and number of students served. We will be expanding the SSA fall 2020 cohort to ~80 students.
- Probation Recovery Initiative: The academic probation recovery program generated successful results for students in fall 2018 and spring 2019. Early intervention from the first contact of academic probation is critical for students to transition back into good academic standing. The results of the probation recovery program show a positive correlation between length of time in the program and academic progress. Students who started the program in the fall 2018 semester and continued to meet with the success coach in spring 2019 improved their GPA. Through tracking the qualitative data, many of the students disclosed adversities (either during childhood or currently) that have negatively impacted their academic progress. Acknowledging, discussing, and supporting students with adversities is a critical component to student success in higher education. Our probation recovery initiative is one way in which the institution has committed to intentionally provide the critical support that will help these students succeed in higher education.
- Road to Success: We are continuing the Road to Success program (launched in fall 2018), which identifies freshmen at a critical time and (through advising intervention methods) proactively engages with struggling students, identified as those with midterm GPAs between 1.50-1.99.

University Strategic Plan 2018-2023: *Transforming Our Future, Implementing Change in an Era of Innovation*

The first year of the current strategic plan has been completed. Results for each strategic goal are being gathered and data are being analyzed. An update of results will be delivered to the Board of Governors at its November 2019 meeting. Below is a short

summary of strategies implemented in 2018-2019 -

- 2+2 Articulation agreements have increased from 32 at the start of 2018-2019 to 54 at the start of the 2019-2020 Academic Year.
- Agreements and graduate school pathways have been added for Penn State University Law School (3+3), Marshall University Schools of Pharmacy and Medicine, Marshall University Graduate School, and Shenandoah University School of Pharmacy.
- Online courses have increased from 74 sections in fall 2017 to 101 in fall 2018 to 115 in fall 2019. From 2017 to 2019, the increase is more than 55%.
- A performance management program for classified staff was created and approved by the Executive Leadership Team (ELT). The revised Board of Governors salary policy addresses a classified staff merit pay component. CUPA-HR salary data is used to determine target market pay for faculty and staff positions.
- Expanded the spouse/dependent tuition waiver program to cover six credits per semester rather than three.
- Audited and reduced mowed acreage.
- Inventoried classroom usage for consolidation to save energy costs.

Finances

According to a study commissioned by the West Virginia Higher Education Policy Commission, Shepherd University has the third highest economic impact among West Virginia's four- and two-year colleges The study, titled "The Economic Impact of Public Institutions of Higher Education in West Virginia," shows that Shepherd's economic impact on Berkeley and Jefferson (WV) counties is $91.1 million. Part of this study, which was conducted by the West Virginia University Bureau of Business and Economic Research, examined the economic impact of direct university expenditures like supplies and utilities, university payroll, and out-of-state student expenditures. (*Reference Link: http://www.wvhepc.edu/west-virginias-public-higher-education-institutions-have-2-7-billion-impact-on-state/*). Nevertheless, the current economic climate, coupled with enrollment declines, continue to place financial pressure on the institutions. FY2019 was the first of several years without a reduction in the State appropriation funding level. Instead, the University received an appropriation in the amount of $500,000 from excess revenues made available to Higher Education agencies. These funds were anticipated in FY2020 and will be utilized for specific purposes, as determined by Executive Leadership. **However, the appropriation was posted to Shepherd's appropriation fund on June 30, 2019.**

The impact of sustained cuts to higher education in a state with the lowest attainment rate in the country has caused us to examine our resources carefully, invest strategically in those initiatives that will bring in new populations of students or revenue generating opportunities,

and to make necessary cuts where needed. In her presentation to the Fall 2019 University Assembly meeting (Appendix I, page 285), the University President set as an overarching goal to "attain financial stability to provide a world-class liberal arts education for the next generation of professional leaders and model citizens, and to serve as an education resource for the community." In addition to the efficiencies outlined in the succeeding pages, she has also focused on goals pointing Shepherd externally to obtain sources of funding.

Seeking to reverse trends of the last several years, Shepherd University is controlling expenses by accurately estimating tuition revenue. The Vice President for Enrollment Management has worked closely with the CFO to align enrollment projections to revenue and expenses. The results from the 1st quarter FY2019 financial report bear this out (*see highlights below*). In presenting the FY2019 budget to the Board of Governors, CFO Pam Stevens presented three scenarios ranging from conservative spending to two models with higher levels of expenses. The recommendation by the CFO and the Board to adopt the conservative budget scenario has helped Shepherd keep expenses in line and focus on and manage the decreased the number of days cash on hand of 67. With this challenging scenario, as well as continued stability in the CFO position, results indicate the institution has the opportunity to move in a positive direction to reduce expenses in line with the revenues generated. Overall expenses have been reduced with the outsourcing of key auxiliary services such as the bookstore and dining services (two operations that previously were losing money on an annual basis). New, continuing and targeted enrollment and retention efforts, coupled with our continued focus of budgeting in accordance with current revenue (regardless of possible funding increases from the State) have yielded this positive result over the past year.

Specific financial strategies and actions

Revenue

- Track revenue through the enrollment and add/drop period for each semester. Develop additional marketing and recruitment strategies to enhance the ability to reach a targeted population of students.
- Assist Enrollment with student payment issues to ensure timely and full payment of student charges
- Advise Executive Leadership Team (ELT) of any unexpected variances in total enrollment and/or revenue
- Review related expenses to determine what action can be taken to minimize impact

Budget

- Closely monitor budgets on an ongoing basis by the Finance and Procurement Offices.
- Require budget managers to spend within their allocation.
- Consider requests for additional funding ONLY upon results that provide sufficient revenue to meet or exceed the expenses of the University operations. Should revenue be below projected levels, immediate review and act to further adjust discretionary spending, where reasonable, such as travel, office expenses, supplies, etc.

Cash Flow

Finance is closely monitoring cash flow to ensure all revenues are received and deposited timely and all expenditures will be paid timely, but not paid before due dates. Other cash flow challenges for FY2019 (continuing onto FY2020) include the following:

- Outsourcing of the Bookstore, which took place in April 2018: The University no longer receives the cash flow for the purchase of books and supplies at the start of each semester. However, there will be no expenses incurred by the University, including purchase of inventory, personnel and other operational expenses. The University receives rent for the campus operational space and commission revenue throughout each semester, as agreed upon in the Contract.
- Outsourcing Dining Services which began at the start of the Fall Semester, 2018: The University no longer receives the cash flow for the meal plans for students; however, the students' accounts will be charged for the meal plans and those funds will be remitted to the outside contractor. As with the Bookstore, the University will not be managing the food and supplies inventory nor will it incur the personnel and other operational expenses. The University will receive an invoice twice monthly during the fall and spring semesters for meals consumed/ "swiped" by students indicating usage of their meal plans. The University also receives commission payments for catering student and other campus events each semester, as agreed upon in the Contract. This new method of providing dining services will result in process changes and timing of cash flows to be properly managed, to ensuring timely revenue recognition by both the University and to the contractor, as agreed to in the Contract.

In addition, a number of actions implemented since FY2018 (and continuing into FY 2020) include:

- Duplicative expenses were terminated regarding custodial services being

performed by an outside contractor while full-time staff is employed for that purpose. Turnover in that area with regard to entry-level staff is significant, which is also being addressed.

- Energy savings measures are under implementation to be completed in FY2020. This project is expected to provide an FY2020 reduction in electricity expense in exchange for propane expense via boiler conversions, resulting in a net savings of at least $100,000.
- Academic faculty has been reviewed and, as part of the Strategic Plan, will be further analyzed to ensure that the most economic mix of full-time faculty and adjunct faculty will be ongoing, with the quality of education for our students and fulfillment of the institutional mission being the primary concern. The Provost worked with the President's Executive Leadership Team to develop a position request template which addresses program productivity and projected teaching assignments (faculty) and duties (staff) of a requested or reallocated line (Link: https://media.suweb.site/2018/08/Academic-Affairs-Faculty-Line-Request-PDF-FILLABLE.pdf).
- The institution is also examining the administrative academic structure to realize potential savings of $200-300K annually through the restructuring process. The restructuring process has been implemented as of July 1, 2019. Information on proceedings of the 2018-2019 academic year may be found here: http://www.shepherd.edu/academic-affairs/academic-restructuring

Audit overview

Upward trends noted in the FY2019 financial statements report given at the September 19, 2019 Board of Governors meeting (at which time the statements were still under the final review of the University's external audit firm, CliftonLarsonAllen) include the following:

- **Tuition and Fee Revenue (net)** - **$15.6 million – 104.2% of the FY2019 Budgeted amount of $14.9 million.** The Tuition and Fee Revenue increase directly relates to the 3.1% increase in in-state tuition and fees, and an increase of 1% in out-of-state tuition and fees. It is further impacted by the improvement in the retention rate and increased recruitment efforts in counties of our surrounding states, as well as in West Virginia. **The rate of decline is slowing as recruitment and retention efforts produce positive results.**
- **Operating Expenses: $56.1 million – 3.9% decrease; $2.3 million less than FY2018**. The University expended 110% of budgeted Operating Expenses at the end of FY2019. All categories of operating expenses exceeded 100% of the budgeted amount with the exception of Depreciation, which is highly

predictable. Total operating expenses are, however, lower than FY2018 by $2.3 million, or 3.9%. Most categories of operating expenses were lower in FY2019 than in FY2018, with the exception of Utilities and Student financial aid – scholarships/fellowships. Utilities increased due, in part, to the transition of propane to a different vendor to receive a lower price. However, there was some additional cost to transferring tanks. In addition, there was an undetected water leak that added to the increased utilities expense**. Neither of these should have an ongoing impact in future years.**

- **Gifts - $2.002 million - 20.7% increase; $344,243 more than FY2018**. This revenue is generated by contributions from the SU Foundation, mostly in the form of student scholarships.
- **Total Liabilities**: **$52.6 million – 4.8% decrease; $2.7 million less than FY2018**. Significant changes include **decreases in Accounts Payable, Other Postemployment benefits and Bonds Payable, Notes Payable and Deposits held for others.** Increases in Accrued Liabilities, Compensated Absences, Deferred Revenue, and Leases Payable are noted.
- **Accounts Receivable, Net: $338,063 – 13.2% decrease; $51,539 less than FY2018.** Finance continues the early collection process for student accounts. Past due balances on student accounts frequently occur from a change in the student enrollment, which creates a reduction of financial aid. The Business Office continues to manage the Student Payment Plan in-house. This enables students to make partial payments and prevents them from being dropped from classes, which contributes to retention efforts.
- **Grants and Contracts Receivable (net) - $892,365 - 48.1% decrease; $827,409 less than FY2018.** Approximately **$382,050** is due from the Shepherd University Foundation Supporting Organization (SUFSO) for the Potomac Place (public-private partnership residence hall) ground lease rent payment, which is $583,000 less than the payment received in FY2018. **This is the result of a full year of debt repayment for the USDA loan financing Potomac Place, while the prior year was closed in the 8th month of FY2018**.
- **Bonds and Leases Payable - $37.5 million - 3.9% decrease; $1.5 million less than FY2018.** Bonds Payable balances continue to decline due to the payment of principal for these obligations and the lack of additional bond debt. Leases payable increased due to the capital lease that was secured to finance the Ram stadium turf replacement in the amount of $455,150.
- **State Appropriations -** $500,000 was awarded from excess revenue by the WV State Legislature. This amount was deposited into the University funds on June 30, 2019. In addition, $2.7 million - 3.1% increase; will become available in

FY2020, as a result of additional State support that was awarded by the State Legislature to equalize the funding among Higher Education 4-year schools in WV. Further, in FY2020, Shepherd will also receive $312,287 to partially fund the Governor's FY2018 proclaimed 5% average pay increase ($2,160 per full-time employees). The University will utilize this additional funding, as appropriate, to offset the continued enrollment decline that is anticipated in FY2020.

- **Days Cash: 67.** ***At the end of FY2019, the University had sufficient cash and other resources on hand to meet operating and capital requirements.*** While cash balances decreased from FY2018 to FY2019 by 13.1% to $9.6 million, cash decreased from year-end FY2018 by 24.4%, to $11.019 million. It is imperative to improve the cash position going forward. **However, the comparison from FY2018 to FY2019 ending cash balances represents a much smaller cash decrease.** When analyzing the change in days of cash on hand, comparing the year-over-year change is most relevant. Cash fluctuations from quarter-to-quarter within the fiscal year are influenced by student enrollment and payment of tuition, fees, and room and board.

Table 4: Budget Comparison-FY2019 and FY2018
demonstrating progress Shepherd has made in its finances.

	FY2019 Budget	Year End FY2019	% of FY2019	FY2018 Budget	Year End FY2018	% of FY2018
Tuition & Fees	14,960	15,603	104.5%	16,915	16,263	96.15%
Total Operating Revenues	31,941	34,784	109.9%	38,399	37,297	97.1%
Total Operating Expenses	51,040	56,089	110.0%	58,386	58,393	100.0%

Summary

Tuition and fee revenue and the related inflow of student financial aid is of the utmost priority for restoring the financial health of the University. As the declining enrollment trend began nationally, Shepherd was not alone in being in a "reactionary" mode to take the appropriate actions throughout the campus. Responding and adjusting to this major change in operations does not show immediate results. As with most, if not all, higher education institutions, Shepherd has been diligent in researching and tracking trends in enrollment to determine the best course of action. Actions such as targeting recruitment, providing a better "onboarding" process and offering a competitive package to eligible students has been an ongoing process to

ensure new enrollment growth. To further address the declining enrollment, processes such as the Student Success Academy have been implemented, with a substantial increase in retention of high-risk students.

Budget processes have been implemented to address spending beyond the projected revenue. Departmental budget managers have been directed to maintain spending within the constraints of limited resources. Finance and Procurement will monitor spending and require Budget Changes, as needed. These offices are available and ready to offer assistance to the budget managers to enable reasonable modifications within the budget provided.

Expenditure reductions are being implemented wherever possible. Telephone expenses for FY2019 were reduced by approximately 20-25% ($60,000) based on negotiation of a new contract with no reduction in services. Copier leasing was analyzed and, upon completion of a successful bid process, a new contract was issued within FY2019 to provide further savings to the University over a 3-5 year phase-in process. Travel, office expenses, other supplies, part-time employment and student employment spending levels have been reduced to align with the reduced enrollment and tuition revenue.

Capital spending continues to be closely monitored by the Executive Leadership Team (ELT) to determine if the request is necessary and if the purchase is being made at the best pricing. In addition, the ELT and the Board of Governors are working collaboratively to develop a solid plan for major capital expenditures that are essential to both the functioning of the campus buildings and equipment and the appearance and amenities that will attract students to choose Shepherd. Deferred maintenance has been one method of managing cash flow. At this point in time, a comprehensive review of this practice is essential as we recognize the growing cost of building maintenance due to this method. Further, more efficient systems, such as HVAC and electrical (LED) lighting, will continue to render savings in utility cost, which must be considered in this analysis.

We realize that high points in enrollment both at Shepherd and nationally occurred in 2011 and 2012, and we are strategically and accurately aligning operations to budget as an institution of 3,200 students vs. our high point of over 4,000 nearly a decade ago. Shepherd University has Presidential and Executive leadership that strives to produce the best education, experience and environment for students, and to uphold its obligation to operate efficiently and economically in these challenging financial times. Much progress has been made toward improving the overall financial health of the University. This will be an ongoing and collaborative effort between academic and administrative units, even when we attain our goal of deficit elimination.

APPENDIX A: Shepherd University Strategic Plan 2018-2023 and Key Performance Indicators

Shepherd UNIVERSITY

Transforming Our Future

Implementing Change in an Era of Innovation

Strategic Plan 2018-2023

Message from the President

Shepherd University has entered an era of historic change in higher education. Traditional structures and operations that worked well in the past will need to be reengineered for the future. Greater emphasis must be placed on creative and forward thinking to navigate the current and future challenges facing higher education. But while this necessitates that Shepherd become increasingly more innovative and resourceful, this change also ushers in an era of unparalleled opportunities.

As a regional public university, Shepherd University embraces and serves a broad range of undergraduate, graduate, and doctoral students by providing access to higher learning. During this time of dynamic change, Shepherd should continue to seek new, innovative approaches to enhance our identity, structure, operations, learning delivery methods, and resources associated with student learning and success, as we strengthen our foundation and shape our future for providing exceptional experiences for our students, employees, and partners.

With these challenges and opportunities in mind, my charge to the Strategic Planning Committee was to create a five-year strategic plan that will inform campus decision-making and fundraising priorities, resulting in a strong financial position. The plan will also serve as a strategic roadmap with implementation guidelines. Shepherd University must attain financial stability to provide a world-class liberal arts education for the next generation of professional leaders and model citizens and to serve as an educational resource for the community.

Thank you for being part of Shepherd and believing in the possibilities that will shape our future. Together, we can address our challenges and maybe have a little fun along the way!

With best wishes and great expectations,
Mary J.C. Hendrix

The University Context and Environment

The fundamental shifts that have transformed the higher education landscape over the past decade have been driven primarily by demographic, economic, cultural, and political influences.

Since 2011, many colleges and universities have experienced decreasing undergraduate student enrollments due to declining high school-aged student populations across the nation. Shepherd has been able to maintain strong enrollment numbers for in-state West Virginia students, but out-of-state enrollment has declined in direct proportion to the lower number of high school-aged students in Maryland, Virginia, and Pennsylvania. This dwindling market has led to unprecedented competition among colleges and universities and has driven the need for more scholarships and an increase in discount rates. Shepherd is no longer contending with only regional schools, but is now competing in a highly-coveted recruitment market with public, private, and proprietary institutions from across the entire eastern seaboard.

The demographic composition of traditional-aged students will change as well over the next decade with incoming student populations becoming more ethnically diverse. In addition, economic challenges are influencing students and families to question the value of earning a college degree, particularly when compared to the costs of attendance and related debt following graduation. Both of these factors will require the university to re-evaluate current learning models and continue to promote and enhance the value of a Shepherd degree to our current and future students.

Over the last five years, Shepherd has experienced a decline in full-time equivalent (FTE) students and a significant reduction in state appropriations. As the lowest funded public baccalaureate institution per FTE in West Virginia, Shepherd has become increasingly reliant on tuition, fee, and room and board revenue to fund basic operations as well as to fund operating cost increases. In order to achieve our mission, add new initiatives, and address deferred maintenance, Shepherd must develop a financial model that meets current needs, allows for investments in the future, and builds a contingency reserve.

Mission

Shepherd University, a West Virginia public liberal arts university, is a diverse community of learners and a gateway to the world of opportunities and ideas. We are the regional center for academic, cultural, and economic opportunity. Our mission of service succeeds because we are dedicated to our core values: learning, engagement, integrity, accessibility, and community.

Vision

Shepherd: A Premier Public Liberal Arts University
We will be a nationally respected community of learners where passion, purpose, and experience unite to inspire individuals to shape the world.

Core Values

Committed to excellence, Shepherd University embraces the following five core values:

- **Learning-**Shepherd University creates a community of learners who integrate teaching, scholarship, and learning into their lives. In order to create challenging, relevant experiences, inside and outside of the classroom, the university continually evaluates and assesses various aspects of student learning. We recognize and accommodate diverse learning styles and perspectives necessary for global understanding.

- **Engagement-**Shepherd University fosters environments in which students, faculty, staff, and members of the community engage with each other to form mutually beneficial relationships. We believe that meaningful engagement, with ideas and with people, promotes deep learning and nurtures critical thought and dialogue.

- **Integrity-**Shepherd University strives for an environment of honesty and fairness in its actions. University officials seek input from students, faculty, and staff and make informed and objective decisions. We expect all members of the community to act in accordance with this core value.

- **Accessibility-**Shepherd University provides services to all qualified students. Our staff and faculty are available to students and are committed to respecting and meeting individual needs. University governance and budgeting structures reflect our commitment to transparent processes and public access to information.

- **Community-**Shepherd University comprises a community that includes students, faculty, staff, alumni, and involved citizens. We meet the needs of this community through assessment, development, and implementation of innovative programs and initiatives. We strive to create a safe environment based on mutual respect and acceptance of differences.

The Shepherd Image

Goal 1: *Create a unified identity that clearly relays Shepherd University's distinctive brand of academic excellence and innovative spirit to prospective students, collaborative partners, and the greater community.*

Strategies

- Develop an integrated marketing plan that creates a unified visual and communications identity.
- Strengthen and enhance strategic recruitment and enrollment efforts for in-state, out-of-state, and international undergraduate and graduate students.
- Position Shepherd University as a leading provider of academic, cultural, entrepreneurial, and continuing education opportunities.
- Develop innovative and collaborative solutions with the community, when appropriate, such as the co-development of academic programs, improvement of facilities, and identification of new funding sources.

The Student Experience

Goal 2: *Empower and support Shepherd's increasingly diverse student body as they pursue a rigorous and transformative education that includes academic experiences beyond the classroom, preparing them for ongoing and future academic growth and a successful career path.*

Strategies

- Ensure that qualified students—regardless of financial, academic, or environmental obstacles—have the ability to enroll, persist, and succeed at Shepherd.
- Offer a flexible, high-quality education that accommodates varied learners through traditional, evening, weekend, summer, and online course structures.
- Provide enhanced academic advisement that ensures students will be able to successfully navigate the requirements for graduation.
- Strengthen access to and from Shepherd through increased partnership agreements with high schools, community colleges, and professional and graduate schools.
- Expand internship and career-related opportunities, preparing our students as professionals in a global, competitive workforce.

The Employee Experience

Goal 3: *Encourage, recognize, and reward faculty and staff for their contributions to the University's mission, within a collaborative working environment that fosters academic freedom and professional growth.*

Strategies

- In conjunction with institutional financial indicators, create benchmarks for offering salary and merit increases for all faculty and staff.

- Offer alternative benefits to improve work/life balance such as telecommuting, tuition remission for dependents and spouses, and childcare.

- Encourage faculty innovation that incorporates new instructional techniques and learning modalities that increase opportunities for Shepherd's diverse student body.

- Create increased professional development opportunities for staff and faculty that enrich the profile of the institution.

The Campus Environment

Goal 4: *Establish a financially stable and environmentally sustainable foundation on which to grow the institution.*

Strategies

- Focus on creating a sustainable campus and a mindset of energy conservation and recycling practices, as well as electronic solutions for internal business processes.

- Diversify income streams and enhance budgets with extramural funding through grants, sponsored research, fundraising initiatives, public-private partnerships, and potential lease and rental agreements.

- Evaluate and adjust academic and administrative structures to meet current and future demands.

- Continue to work in alliance with the Shepherd University Foundation to support university-community partnerships.

- Ensure the efficient use of campus facilities and assets.

Moving Forward

Shepherd University's strategic plan is just the starting point. Reaching and exceeding our strategic goals will hinge on full participation from stakeholders across the campus community and our strategic partners. The next three steps, as we move from the planning phase to the action phase, are implementation, measures and metrics, and outcome assessment:

- Implementation teams, aligned with the strategic goals, will be formed and include stakeholders from all divisions at all levels across the university. Strategic goals and implementation strategies will be aligned with current operations in order to make timely forward progress.
- Existing and new measures and metrics will need to be defined and documented.
- An implementation timeline and schedule of annual assessment will be developed to serve as a guide for staying on-course as we collectively move through the lifecycle of the strategic plan.

Information will be shared publicly throughout the lifecycle with the campus community and may also be tracked at the Strategic Plan website: **http://www.shepherd.edu/strategic-plan/**

Strategic Planning Committee

William Sommers, Chair	Vice President for Enrollment Management
Evora Baker	Assistant Director, TRiO Upward Bound Program
Scott Beard	Acting Provost
Cara Burker	Clinical Faculty in Nursing Education
Sonya Evanisko	Professor of Art
Tuncer Gocmen	Professor of Economics and Finance
Tim Haines	Director of Marketing and Digital Strategy
Brian Hammond	IT Administrative Analyst and Budget Officer
Stacey Kendig	Chair and Acting Co-Dean, HPERS
Ramona Kissel	Administrative Assistant, College of Business
Christopher Lovelace	President, Faculty Senate
Aniqua Lower	Student Representative
Cecelia Mason	Staff Writer, University Communications
Keerthana Mesineni	Student Representative
Colleen Nolan	Professor of Biology
Laura Renninger	Dean, Center for Teaching, Learning and Instructional Resources
Richard Stevens	Acting Dean, Graduate Studies and Continuing Education
Meredith Wait	Community Member
Ralph Wojtowicz	Associate Professor of Mathematics

Shepherd UNIVERSITY

Transforming Our Future

Implementing Change in an Era of Innovation

2018-2023 Key Performance Indicators

Updated: November 2018

Goal 1: The Shepherd Image

Create a unified identity that clearly relays Shepherd University's distinctive brand of academic excellence and innovative spirit to prospective students, collaborative partners, and the greater community.

2,821 (Fall 2018)

Undergraduate Degree-Seeking Student Headcount: Total undergraduate students in all class levels.

Past Performance

Fall 2016	Fall 2017
3,095	2,958

147 (Fall 2018)

Graduate Student Headcount: Total master's and doctoral degree students enrolled.

Past Performance

Fall 2016	Fall 2017
173	182

755 (Fall 2018)

Non-Degree-Seeking Student Headcount: Total undergraduate and graduate non-degree students.

Past Performance

Fall 2016	Fall 2017
558	649

3,723 (Fall 2018)

University Enrollment Headcount: Total university enrollment includes all student types.

Past Performance

Fall 2016	Fall 2017
3,826	3,789

Goal 2: The Student Experience

Empower and support Shepherd's increasingly diverse student body as they pursue a rigorous and transformative education that includes academic experiences beyond the classroom, preparing them for ongoing and future academic growth and a successful career path.

69% (Fall 2017 cohort)

First-Year Retention Rate: First to second year retention rate of full-time, first-time, degree-seeking freshmen.

Past Performance

Fall 2015 Cohort	Fall 2016 Cohort
59.9%	64.9%

32.2% (Fall 2014 cohort)

Undergraduate Graduation Rate (4 Years): Bachelor's degree graduate rates of full-time, first-time, degree-seeking students graduating within four years.

Past Performance

Fall 2012 Cohort	Fall 2013 Cohort
24.6%	30%

48% (Fall 2012 cohort)

Undergraduate Graduation Rate (6 Years): Bachelor's degree graduate rates of full-time, first-time, degree-seeking students graduating within six years.

Past Performance

Fall 2010 Cohort	Fall 2011 Cohort
46%	42%

9.6 Hours

Average Completed Service Hours Per Student: Community service and service learning hours per undergraduate degree-seeking student based on fall census.

Past Performance (hours)

2011	2012	2013	2014
8.7	8.8	9.9	9.5

Goal 3: The Employee Experience

Encourage, recognize, and reward faculty and staff for their contributions to the University's mission, within a collaborative working environment that fosters academic freedom and professional growth.

14.7:1 (Fall 2017)

Student-Faculty Ratio: FTE (full-time equivalent) students per one FTE faculty.

Past Performance

2016
14.8:1

89.8% (FY 2016-17)

Faculty Salaries: Percentage of faculty salaries, all ranks, to the average COPLAC salaries.

Past Performance

FY 2006-07	FY 2011-12
94.4%	94.7%

39.2% (Fall 2017)

Percentage of Full-time Faculty: Percentage of faculty who are full-time instructional faculty.

Past Performance

2015	2016
37.9%	40%

Staff Salaries

Staff Salaries (CUPA-HR Benchmark): Median salaries among nationwide institutions of comparable status, size, and budget.

Past Performance

2017-18
89.6%

Goal 4: The Campus Environment

Establish a financially stable and environmentally sustainable foundation on which to grow the institution.

35.6% (2018)

Full-time Students in Residence Halls: Percentage of full-time undergraduate degree-seeking students living in residence halls based on fall census.

Past Performance

2016	2017
33%	34%

-3.2% (FY 2017-2018)

Energy Expense: Year-over-year increase or decrease.

Past Performance

FY 2015-2016	FY 2016-2017
+2.9%	+4.8%

$52.2 Million (FY 2018)

Foundation and Supporting Organization Assets: Total assets held for the benefit of Shepherd University.

Past Performance (millions)

2015	2016	2017
$28.9	$50.7	$54.5

$4,311,412

Gifts, Pledges, and Grants: New gifts, pledges, and external foundation grants.

Past Performance

2017	$4,550,472
2016	$4,930,447
2015	$2,077,184

Data Sources: Shepherd University Institutional Research and National Center for Education Statistics

APPENDIX B: Shepherd University Board of Governors Enrollment Management Annual Reports CY 17, 18

Shepherd University Board of Governors
December 14, 2017
Agenda Item No. 8

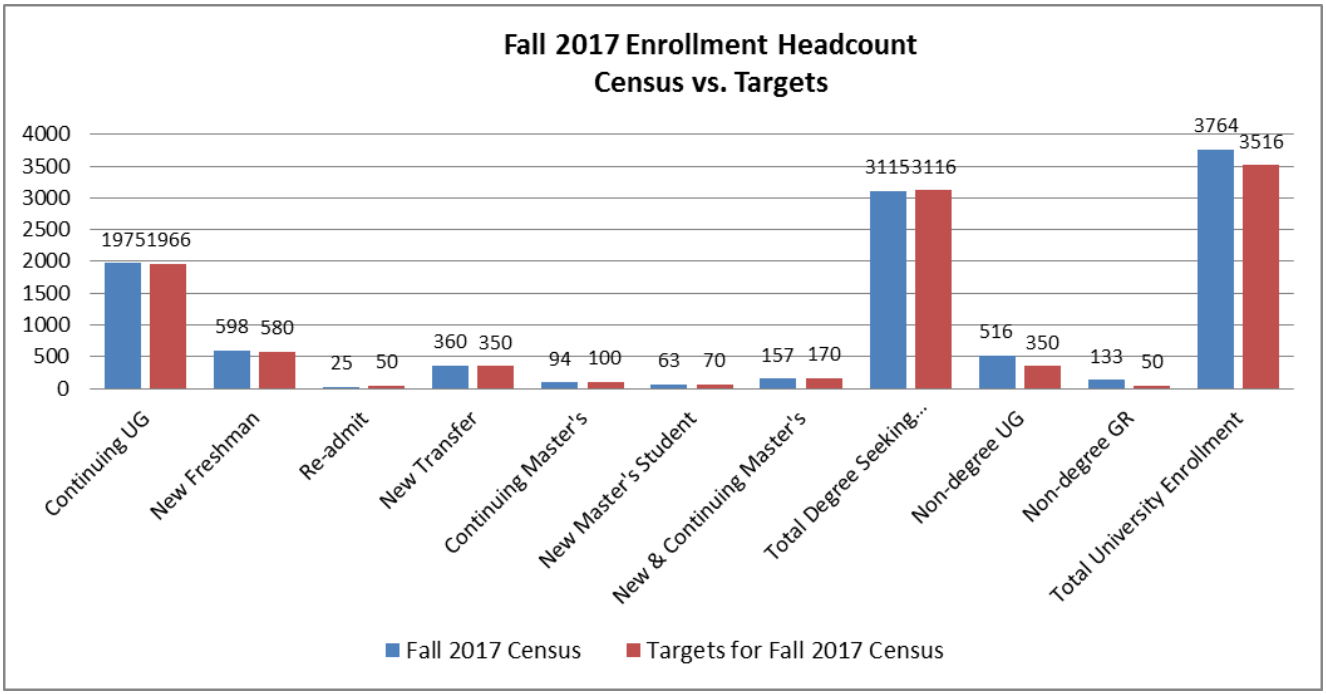
ENROLLMENT MANAGEMENT ANNUAL REPORT

The Enrollment Management Annual report will be presented by Mr. Bill Sommers, Vice President for Enrollment Management. The report will cover a summary of University recruitment and admissions, student persistence and retention, student financial aid and scholarship, and strategic enrollment initiatives.

The Office of Institutional Research (OIR) submitted the Fall 2017 enrollment census to the West Virginia Higher Education Policy Commission (HEPC) in early October. These data points reflect the dynamic and challenging higher education environment. The data shows how demographic declines and shifts in the traditional-aged, high school population are dramatically impacting enrollment at public and private institutions both in our region and across the United States. Institutions are seeing an increased need for student financial support, greater scrutiny of value, and heightened price sensitivity. These challenges are common among our peer institutions and not exclusive to Shepherd University.

University Enrollment Targets

Projected enrollment targets were set for each undergraduate and graduate student segment using a predictive model developed by Shepherd's Enrollment Management department. Data and information from the OIR and external sources were used. Eight out of 10 enrollment targets were achieved.



Sources: Enrollment Management and Office of Institutional Research

Marketing, Recruiting and Admissions
University Communications and the Offices of Admissions, Financial Aid and Registrar all played an important role throughout the recruitment year. The annual marketing and recruiting plan follows the college search, selection, and decision timeline (phases) of our future students, families, and decision influencers. The plan is time-sensitive and driven by enrollment goals, objectives, strategies, and tactics. The 2016-2017 undergraduate recruitment and enrollment cycle yielded 598 First-Time in College (FTIC), 360 transfers, and 25 readmit students enrolling Fall 2017, slightly exceeding the target of 980 students.

Key Marketing and Recruiting Strategies

- University Communications, Director of Marketing, collaborated with Admissions in running 38 geo-targeted social media campaigns prior to an admission counselor's visit to a high school, college fair, and open house events. These targeted campaigns resulted in 120,108 users being reached and 2,015 click-throughs to a dedicated website. A separate social media campaign targeting residents of the new Metro Scholarship counties was run during the 2016-0217 Thanksgiving and winter breaks and resulted in 80,666 users being reached and 1,803 click-throughs.
- Recruiting travel included visits to high schools, community colleges, and college fairs throughout West Virginia, Maryland, Virginia, Washington D.C., Pennsylvania, and Delaware. Over 300 visits were made during the 2016-2017 recruitment cycle. Personal visitations with prospective students and high school counselors are critical to strengthening Shepherd's position within these schools and markets.
- The Metro Scholarship was launched in October 2017. This scholarship focused on strengthening our position in key counties in Maryland and Virginia with a desired outcome of increasing out-of-state student enrollments and housing occupancy rates. The scholarship benefitted recruiting by increasing the conversion of accepted students who deposited and enrolled at Shepherd by 5%. At census, there were 78 students who accepted the Metro Scholarship and are living on campus.
- Revising the awarding process for academic department tuition waivers yielded better results by increasing the number of students with awards by 17% (18 students) while decreasing the amount of waived tuition revenue by 6% ($7,822).

A survey of non-matriculated students (students that were accepted to Shepherd, but declined to enroll) was conducted in July and August 2017. The majority of those who responded were from outside West Virginia, and indicated they will be attending college at another institution. The responses represent students deciding to attend school in 11 different states and 36 different institutions. The most frequent results showed that our competitive challenges include a lack of quality facilities (particularly dining), the amount of scholarships offered compared to that offered by other institutions, and student's simply desiring a larger school experience. Fortunately, the overall impression of Shepherd was very favorable and complimentary to the campus and staff.

FTIC Freshman Admission Build
The FTIC admission build resulted in an intentionally, slightly lower conversion rate from applied to accepted student. Accepting qualified students who met admission requirements was a point of emphasis this year. The conversion from accepted to deposited was higher by 3% and deposit cancellations were slightly lower than the prior year. The FTIC academic profile at census resulted in a mean composite scores for ACT=21.4, SAT=1049 and high school GPA=3.4 showing a solid class of new students.

FTIC Students

	Fall 2015	Conversion	Fall 2016	Conversion	Fall 2017	Conversion
Applications	2,043		1,883		2,041	
Accepts	1,484	72.6%	1,417	75.2%	1,407	68.9%
Deposits	789	53.1%	660	46.5%	696	49.5%
Deposits Cancelled	99	12.5%	59	8.9%	56	8%
Net Deposits	690		601		640	
Enrolled	639	92.6%	564	93.8%	598	93.4%

Source: Admission Build Report, Office of Admissions

Transfer Student Admission Build

Transfer student admissions finished with more applicants than the prior two years. The acceptance rate was lower than the previous year, driven by a higher number of students who did not complete their admission file. In recent years, transfer students have remained enrolled at their community college through degree completion. Improvements in deposit cancellation rates resulted in a much higher enrollment yield (94.4%) compared to last year.

Transfer Admission Build

	Fall 2015	Conversion	Fall 2016	Conversion	Fall 2017	Conversion
Applications	755		857		923	
Accepts	577	76.4%	604	70.4%	598	64.7%
Deposits	510	88.3%	465	76.9%	424	70.9%
Deposits Cancelled	93	18.2%	50	10.7%	43	10.2%
Net Deposits	417		415		381	
Enrolled	376	90.1%	362	87.2%	360	94.4%

Source: Admission Build Report, Office of Admissions

Student Success, Persistence, and Retention

Student persistence and retention continues to be an opportunity for enrollment stability and a high priority with the offices of Student Affairs, Academic Affairs, and Enrollment Management. The growing financial need of our students, coupled with academic preparedness, continues to be the overarching barriers to student persistence. Many Shepherd students work on- and off-campus jobs while trying to maintain full-time student status (12 or more credit hours). That combination is very challenging and stressful for students and can attribute to poor academic performance.

- The Shepherd Success Academy (SSA) is a new student success program started this Fall with a cohort of 35 new students considered to be "at risk" based on low test scores and/or high school GPA. The program is an assisted effort to increase the number of full-time, first-time students who persist from the first year to the second year of college. Through weekly individual meetings with a personal success coach, each student is coached in the following areas over the course of the semester: preparing for classes, knowing when/how/where to get help on campus, improving study skills, staying organized, time management and working, campus procedures and deadlines, staying motivated, resiliency, and engaging on campus.

  In the recent mid-semester assessment administered to all SSA students, 100% of students said the coaching has been "worthwhile and helpful", and 92.86% said they are "enjoying their experience at Shepherd University". As of November 2017, there have been only two Beacon

alerts for SSA students, both of which were immediately addressed and resolved. The academic performance and persistence of the first cohort will be assessed at the end of the Fall semester and compared to students who opted not to participate in the SSA. Each cohort will be tracked each subsequent semester for persistence and good standing.

- Twenty-three students were offered a Last Dollar Fund award before the drop for non-payment deadline in September. The Fund is intended to assist degree-seeking students who have exhausted other financial aid resources and are struggling to clear their bill. The process of identifying and awarding student's last dollar funds is a collaboration between several offices, including financial aid, business, and enrollment management.

  Last Dollar Fund Awards:
  - The average student award was $880 with amounts ranging from $250 to $1,500.
  - A high percentage of awards were to high financial need students -- 9 students had an expected family contribution (EFC) of $0, and 5 students had an EFC under $20k.

  Last Dollar Grant Results:
  - Ten students were able to clear their Fall bill with the help of Last Dollar funds. An investment of $8,010 dollars in Last Dollar Funds yielded $54,435 in net tuition revenue and most importantly prevented 10 students from being dropped for non-payment.
- The Retention Intervention Team (RIT) provides timely interventions with students who are encountering academic challenges and are at risk of leaving the Institution. Seventeen staff members from three different offices are assigned a cohort of students at the beginning of each semester. RIT members communicate timely messages including available student support resources, reminders to see their academic advisor, upcoming registration dates, and follow-up calls with students who are not registered for the upcoming semester.

Retention of Full-time, First-time, Freshman Cohorts

After a dip with the Fall 2015, full-time, first-time student cohort retention rate, the Fall 2016 retention rate persisted at nearly 65%.

Semester	Cohort Headcount	Fall-to-Fall Retention
Fall 2014	634	66.1%
Fall 2015	631	59.9%
Fall 2016	559	64.9%
Fall 2017	590	Available Fall 2018

Source: Office of Institutional Research

University Enrollment Breakdown
New FTIC (freshman) student enrollments increased 5.7% over Fall 2016. Undergraduate transfer and graduate student enrollments remained stable compared to last year. Persistence of continuing undergraduate, degree seeking students showed improvement with 80% of students enrolled in spring 2017 continuing their enrollment in Fall 2017. Continuing to invest in, and focus on undergraduate degree-seeking student success and persistence is our greatest opportunity to stabilize and grow enrollment and must remain a priority of the University.

University Enrollment Census, Year-over-Year

Headcount by Student Segment	Census Fall 2015	Census Fall 2016	Census Fall 2017
Continuing Undergraduate	2,270	2,119	1,975
New First-Time in College (Freshman)	639	564	598
Re-Admit	44	51	25
New Transfer	370	362	360
Graduate, Master's-New and Continuing	144	151	157
Doctor of Nursing Practice (DNP)	15	22	25
Degree-Seeking	**3,482**	**3,296**	**3,140**
Non-Degree Undergraduate	376	388	516
Non-Degree Graduate	63	207	133
University Enrollment	**3,906**	**3,867**	**3,789**

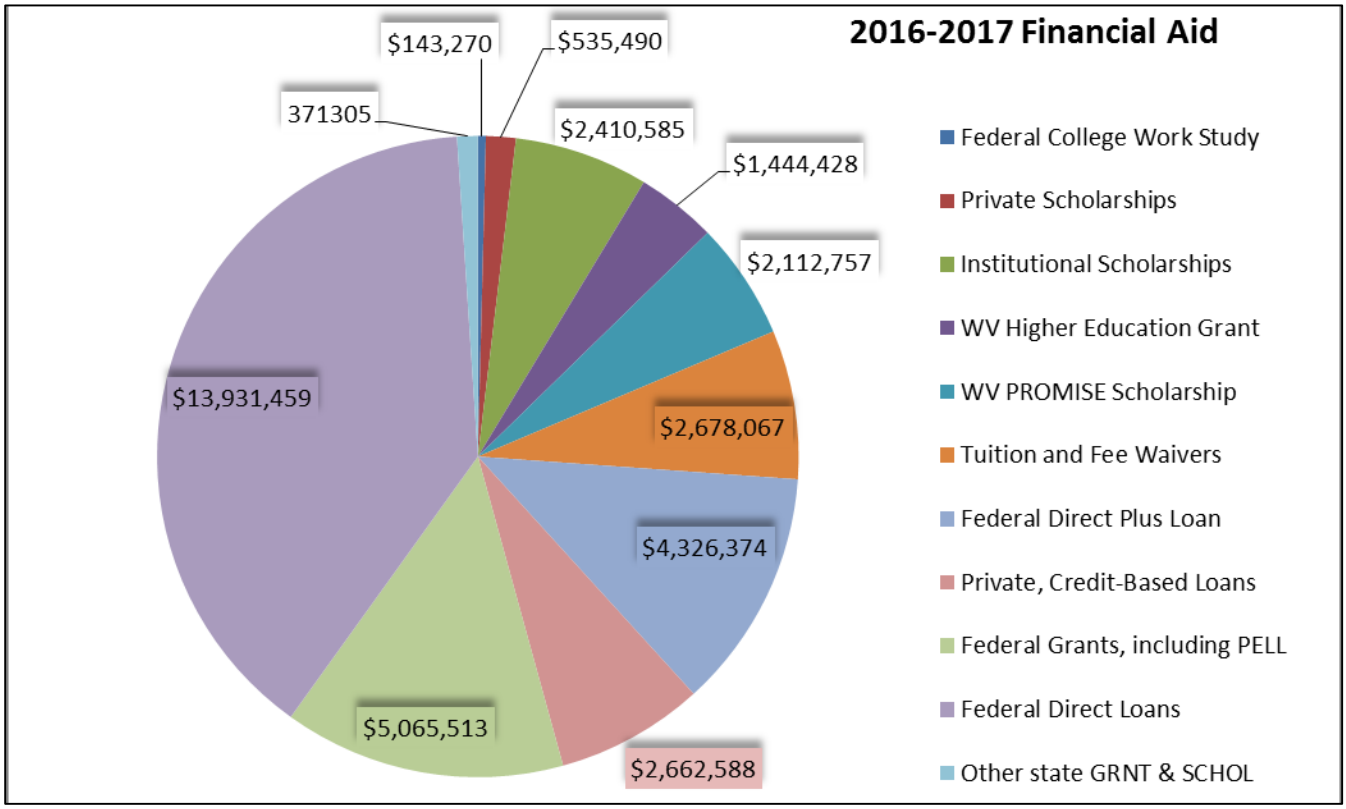
Sources: Enrollment Census, Office of the Registrar and Institutional Research

Degrees Awarded
The number of degrees conferred increased when compared to last year. Degree production by academic program remained consistent when compared to previous years. The top five undergraduate degree programs include Regent Bachelor of Arts (RBA)/12%, Nursing/11%, Business Administration/10%, Recreation and Sports Studies 7%, and Secondary Education/7%.

Degrees Awarded by Level

Degree Level	2015-2016	2016-2017
Baccalaureates	708	760
Master	63	66
Total	771	826

Financial Aid and Student Scholarships
The increasing need for financial support, heightened price sensitivity, and resistance to student loan debt has increased the need to award more institutional aid to attract, enroll, and retain Shepherd students. Roughly 48% of Shepherd undergraduate students are either low income, first-generation, or both. The breakdown below shows the distribution and amounts of aid students have utilized.



Source: Office of Financial Aid and Scholarship

Strategic Enrollment Initiatives
Investing in data-informed strategic enrollment and retention initiatives will be critical for enrollment stability and growth moving forward. No one single student population will drive growth leading to significant enrollment growth and desired revenue levels. A broader view including delivery of instruction, scheduling, and degrees offered will need to be included moving forward. Below is a listing of several enrollment initiatives currently underway.

- Graduate Students
  - Increase graduate student enrollment with an emphasis on marketing and recruiting post-bachelor students pursuing graduate studies. Market the new Master of Science in Data Analytics, approved in August 2017.
- International Students
  - International pathway partnership agreements
  - Marketing and recruiting international undergraduate and graduate students
  - Market Intensive English Language program

- Underrepresented Student Populations
    - The Western Interstate Commission for Higher Education, *Knocking at the College Door,* 2016 survey of high school graduation projections indicates a significant shift in the racial/ethnic composition of high school graduates. The survey shows white public high school graduates continuing to decline, while non-white students will continue to grow in the years to come.
- Underrepresented Student Populations
    - The Western Interstate Commission for Higher Education, Knocking at the College Door 2016 survey of high school graduation projections indicates a significant shift in the racial/ethnic composition of high school graduates, with white public high school graduates continuing to decline while non-white students will continue to grow in the years to come.

Our Students

- The majority of Shepherd credit students are female.
    - 57.8% Female, 42.2% Male
- Our credit student population is predominately white.
    - 80.3% White, 7.9% Black, 4.2% Hispanic, 1.9% Asian, 2.7% Two or More
- Shepherd serves a wide, age range of students.
    - 59% ages 18-22, 8% ages 23-24, 24% ages 25-44
- Most of our students are from West Virginia.
    - 67% West Virginia, 19% Maryland, 9% Virginia, 2% Pennsylvania, 3% Other
    - 33% of West Virginia undergraduate degree-seeking students are from Jefferson and Berkley counties.
- Most of our undergraduate degree seeking students commute to campus.
    - 70% commuters, 30% residential
- Most of our students are enrolled full-time
    - 72% full-time, 27% part-time
- Many of our students hold a part-time or full-time job while enrolled.
    - Over 60% of our new FTIC students indicated they will have a job.
    - Close to 30% will work 20-hours or more per week.
- Most of our student Full-Time Enrollment (FTE) is enrolled at the undergraduate level.
    - 92% undergraduate, 4% graduate, 3% doctoral

Shepherd University Board of Governors
Report to the Enrollment, Student and Community Affairs Committee
November 8, 2018
Agenda Item No. 7-a

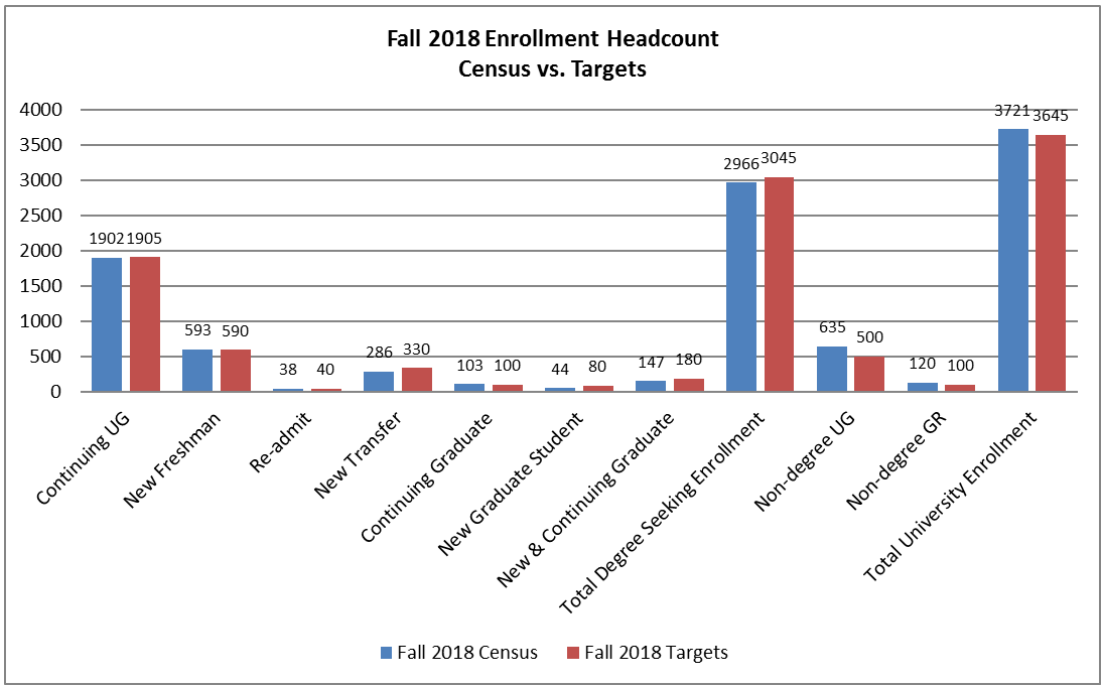
ENROLLMENT MANAGEMENT ANNUAL REPORT

The Enrollment Management Annual report will be presented by Mr. Bill Sommers, Vice President for Enrollment Management. The report will cover a summary of Shepherd's marketing, recruiting and admissions, student success and retention, student financial aid and scholarship initiatives.

The competitive environment in higher education has changed dramatically over the last five years and will continue to be dynamic in the years to come. Just a few years ago, Shepherd would compete for students with a small number of public colleges and universities mostly within West Virginia. Today, Shepherd is competing with public and private schools from multiple states in the mid-Atlantic region. The 2018 Non-matriculated Student Survey revealed that students who considered attending Shepherd ultimately selected schools located in 12 different states, 32% private, 32% four-year public, and 22% community college. Shepherd continues to use proven, traditional methods and new innovative tactics to market, recruit, matriculate, and retain students.

University Enrollment Targets

The Office of Institutional Research (OIR) submitted the Fall 2018 student enrollment census to the Higher Education Policy Commission (HEPC) in early October. Projected enrollment targets were set for each undergraduate and graduate student segment using a predictive model developed by Enrollment Management. Data and information from the OIR and external sources were used in the model.



Sources: Enrollment Management and OIR

Marketing, Recruiting and Admissions

University Communications and the Offices of Admissions, Financial Aid, and Registrar all played a direct role throughout the recruitment year. The annual marketing and recruiting plan follows the college search, selection, and decision timeline (phases) of our future students, families, and decision influencers. The plan is time-sensitive and driven by enrollment goals, objectives, strategies, and tactics. The 2017-2018 undergraduate recruitment and enrollment cycle yielded 593 first-time-in college (FTIC), 286 transfers, and 40 readmit students' enrolled Fall 2018.

Key Marketing and Recruiting Strategies

- A full digital recruiting strategy was implemented for the first time beginning in Fall 2017. A third party source was contracted September 2017-April 2018 for a general undergraduate recruitment campaign in Montgomery, Fairfax, and Loudoun counties which resulted in 2,000 click-throughs and 1.1 million impressions for $13,200 (cost per click: $6.60). In spring 2018, the decision was made to bring all digital marketing in-house (via Google AdWords) to allow for maximization of limited advertising budgets, better analytics management, and to allow for segmented marketing for specific academic programs and initiatives. From April 1-July 9, seven recruitment campaigns were conducted (general undergraduate, transfer students, summer school, RBA, DNP, History, and Graduate Studies) resulting in 17,000 click-throughs and 2.2 million impressions for $5,073 (cost per click: $0.30).

- Recruiting travel included high school visits, community college visits, and college fairs throughout West Virginia, Maryland, Virginia, Washington D.C., Pennsylvania, and Delaware. Over 300 visits were made during the 2017-2018 recruitment cycle. An emphasis was placed on recruiting from Loudoun, Fairfax, Frederick, and Montgomery counties. A part-time regional recruiter was hired to develop and strengthen partnerships with high school counselors and recruit future students. During the Fall 2017 recruiting travel season 15 additional high schools were visited.

- The Metro Scholarship, launched in 2016, played an important role with increasing student applications, accepts, and deposits from key Metro counties in Maryland, Virginia, and Pennsylvania for Fall 2018. While the number of applications from all Metro counties remained steady, increases were experienced at the number of accepted (+2.7%) and deposited (+2.2%) students. At the opening of the semester, there was a +2.7% increase in enrollments from Metro counties when compared to last year.

Non-matriculated Student Survey Results

- University Communications in collaboration with the Admissions Office conducted a survey of non-matriculated students (students that were accepted to Shepherd but declined to enroll) for a second consecutive year. Forty-two percent of the respondents were from West Virginia and 57% were from other states. A few key findings from the survey include:

    - Compared to last year's survey, more students from middle income families are applying to Shepherd. These students do not qualify for any federal need-based grant aid (Pell) and the maximum federal loan amount is $5,500, which means all other non-family contributed aid must come from either the institution via waivers or parent private loans. Eligibility criteria and limitations on federal and state aid often squeeze the middle income family, especially for non-resident students.

- The top four reasons students selected another school were that they received more scholarships from the other institution (42%), wanted better facilities (32%), desired a school with better reputation (25%), and Shepherd is too far from home (23%).

- Thirty-two percent of respondents will be attending a private institution. Listed were 19 different private institutions. Private colleges and universities will continue to be primary competitors for Shepherd's prospective students. Private colleges, although having a higher cost of attendance, are discounting at a rate of approximately 50%.

FTIC Freshman Admission Build

The FTIC admission build resulted in very consistent conversion rate from applied to accepted student. The conversion from accepted to deposited was higher by 2.6%. The FTIC academic profile at census resulted in a mean composite scores for ACT=21.4, SAT=1058, and high school GPA=3.4 showing another solid class of new students.

FTIC Students

	Fall 2016	Conversion	Fall 2017	Conversion	Fall 2018	Conversion
Applications	1,883		2,041		2,031	
Accepts	1,417	75.2%	1,407	68.9%	1,395	68.7%
Deposits	660	46.5%	696	49.5%	714	51.2%
Deposits Cancelled	59	8.9%	56	8%	60	8%
Net Deposits	601		640		654	
Enrolled	564	93.8%	598	93.4%	593	90.6%

Source: Admission Build Report, Office of Admissions

Transfer Student Admission Build

Transfer student admissions proved to be challenging for the Fall 2018 enrollment build. Although our conversion rates increased, the total number of applications decreased compared to last year. A five-year enrollment trend analysis of Shepherd's top community college partners was completed in early spring showing a decline in full-time associate degree seeking students, at all community colleges. To counter the declining transfer student population, human and financial resources have been dedicated toward targeted marketing and recruiting.

Transfer Admission Build

	Fall 2016	Conversion	Fall 2017	Conversion	Fall 2018	Conversion
Applications	857		923		686	
Accepts	604	70.4%	598	64.7%	475	69.2%
Deposits	465	76.9%	424	70.9%	343	72.2%
Deposits Cancelled	50	10.7%	43	10.2%	22	6.4%
Net Deposits	415		381		321	
Enrolled	362	87.2%	360	94.4%	286	89.0%

Source: Admission Build Report, Office of Admissions

Student Success, Persistence, and Retention

Student persistence and retention continues to be an opportunity for enrollment stability and future growth. Effective student success and persistence initiatives, requires collaboration between the divisions of Student Affairs, Academic Affairs, and Enrollment Management. The growing financial needs of our students, coupled with academic preparedness, continues to be the overarching barriers to persistence.

Many Shepherd students work on- and off-campus jobs while trying to maintain full-time student status (12 or more credit hours). This combination is very challenging and stressful for students and can attribute to poor academic performance.

- Shepherd Success Academy (SSA) - Seventy-two percent of the Fall 2017 SSA students (cohort 35 students) persisted from Fall 2017 to Fall 2018 at a rate of 72.2%. By comparison, the overall Fall 2017, full-time, first-time cohort, persistence rate was 69% from Fall 2017 to Fall 2018. Essentially, students who participated in the SSA persisted at a rate of 3.9% better than non-participants.

  Fall 2018 is the second year for the SSA with 35 new students enrolled. The composition of the second cohort was intentionally modified to accept more provisionally admitted students. Thirty-four percent of the cohort (12 students) were provisionally admitted to Shepherd. Provisionally admitted students are required to participate in the Academy. This change in cohort composition was intentional, as a means to provide access to Shepherd. The results of this new composition will help inform how to grow the SSA as well as University enrollment moving forward.

- Last Dollar Fund (LDF) – Greater than 20 students were considered for LDF awards including spring 2018 and Fall 2018. Whenever possible, other financial resources available to the students were utilized, as a means to sustain and stretch the LDF. The average student award was $466, with amounts ranging from $100 to $1000 per award. This could not have been accomplished without the support of many generous Shepherd donors. Thank you!

- Retention of Full-time, First-time, Freshman Cohorts - For the second consecutive year, the full-time, first-time student cohort retention rate increased. The table below shows 5% and 4.1% increases over the last 2 years.

Semester	Cohort Headcount	Fall-to-Fall Retention
Fall 2014	634	66.1%
Fall 2015	631	59.9%
Fall 2016	559	64.9%
Fall 2017	590	69.0%
Fall 2018	593	Data available Fall 2019

Source: OIR

University Enrollment Breakdown

New first-time in college (FTIC) (freshman) student enrollments remained stable compared to Fall 2017. Undergraduate transfer and graduate student enrollments lagged when compared to last year. Persistence of continuing undergraduate, degree seeking students showed improvement for a second year with 83% of students enrolled in spring 2018 continuing their enrollment in Fall 2018. Continuing to invest in and focus on undergraduate degree-seeking student success and persistence is our greatest opportunity to stabilize and grow enrollment and must remain a priority of the University.

University Enrollment Census, Year-over-Year

Headcount by Student Segment	Census Fall 2015	Census Fall 2016	Census Fall 2017	Census Fall 2018
Continuing Undergraduate	2,270	2,119	1,975	1,902
New First-Time in College (Freshman)	639	564	598	593
Re-Admit	44	51	25	38
New Transfer	370	362	360	286
Master's-New and Continuing	144	151	157	129
Doctor of Nursing Practice (DNP)	15	22	25	18
Degree-Seeking	**3,482**	**3,296**	**3,140**	**2,966**
Non-Degree Undergraduate	376	388	516	633
Non-Degree Graduate	63	207	133	122
University Enrollment	**3,906**	**3,867**	**3,789**	**3,721**

Sources: Student Enrollment Census, Office of the Registrar and OIR

Master's Student Enrollment

Continuing and new graduate student enrollments lagged behind our targets for Fall 2018. Eighty new graduate students was an aggressive target. The M.S. in Data Analytics and Information systems was slightly over estimated at 15 new graduate students for Fall 2018. The dip in MBA students, driven by a strong local economy, was not anticipated. An emphasis will be placed on marketing and recruiting more graduate students in 2018-2019.

	Fall 2017		**Fall 2018**	
Master's Degree	Enrollment HC	Percent of Enrollment	Enrollment HC	Percent of Enrollment
Master of Business Administration	89	56.6%	64	49.6%
Master of Arts in College Student Development Administration	28	17.8%	27	20.9%
Master of Arts in Teaching	26	16.5%	23	17.8%
Master of Arts in Curriculum and Instruction	14	8.9%	9	6.9%
Master of Science in Data Analytics and Information Systems	n/a	n/a	6	4.6%

Degrees Awarded by Level

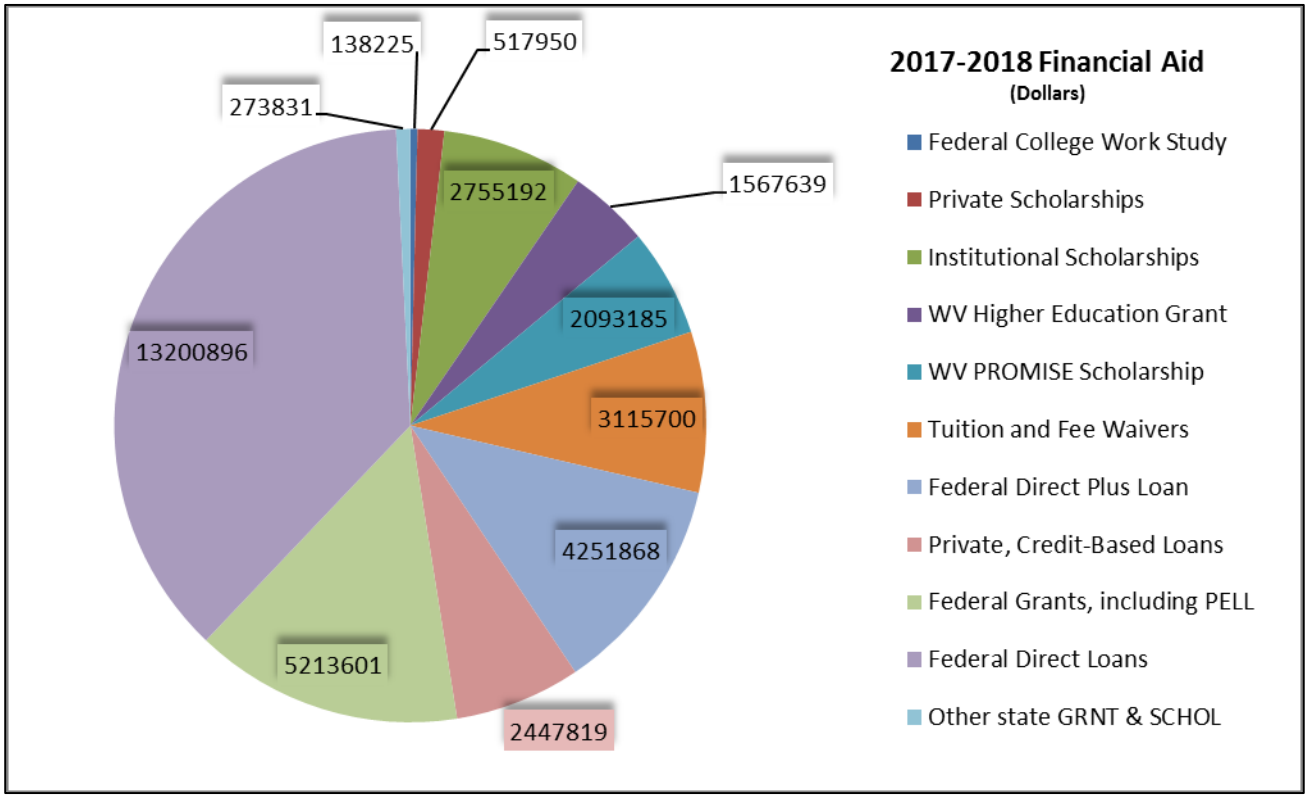
Degree Level	2015-2016	2016-2017	2017-2018
Baccalaureates	708	760	654
Master	63	66	52
Doctorate	n/a	n/a	9
Total	771	826	715

Graduation Production by Program

Degree	Students	% of total
RBA	104	16%
Nursing	74	11%
Business Administration	69	11%
Recreation and Leisure	57	9%
Elementary Education	38	6%

Financial Aid and Student Scholarships

The increasing need for financial support, heightened price sensitivity, and resistance to student loan debt has increased the need to award more institutional aid to attract, enroll, and retain Shepherd students. Roughly 48% of Shepherd undergraduate students are either low income, first-generation, or both. The breakdown below shows the distribution and amounts of aid students have utilized.



Source: Office of Financial Aid and Scholarship

Our Students

- The majority of Shepherd credit students are female.
  - 57.3% Female, 42.7% Male

- Our credit student population is predominately White. Fall 2018 shows an increase in Hispanic students of 1.4%
  - 77.7% White, 7.6% Black, 5.6% Hispanic, 1.9% Asian, 3.2% Two or More
- Shepherd serves a wide age range of students.
  - 59% (18-22), 9% (23-24), 24% (25-44)

- Most of our undergraduate students are from West Virginia
  - 66% West Virginia, 20% Maryland, 8% Virginia, 2% Pennsylvania, 2% Other
  - 56% of undergraduate students are from Jefferson and Berkley counties

- Most of our undergraduate degree seeking students commute to campus
  - 66% Commuters, 34% Residential

- Most of our students are enrolled full-time
  - 72% Full-time, 28% Part-time

- Most of our student full-time equivalent (FTE) are enrolled at the undergraduate level.
  - 92% Undergraduate

- High School Dual Enrollment

Student Cohort	Applied	Registered	High School Juniors	High School Seniors	Enrolled Degree Seeking Fall 2018	Enroll Degree Seeking % Fall 2018
Fall 2017	72	60	10	50	16	32%
Fall 2018	115	103	23	92	TBD	TBD

APPENDIX C: Shepherd University Audited Financial Statements FY 18, 19

Shepherd University

Financial Statements as of and for the Years Ended June 30, 2018 and 2017, and Independent Auditors' Reports

SHEPHERD UNIVERSITY

TABLE OF CONTENTS

CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

To the Governing Board
Shepherd University
Shepherdstown, West Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Shepherd University (the University), a component unit of the West Virginia Higher Education Fund, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Shepherd University Foundation, Incorporated (the Foundation), a discretely presented component unit of the University, which represents 100% of the assets, revenues and net assets of the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

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

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

To the Governing Board
Shepherd University

Opinions

In our opinion, based on our report and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the University as of June 30, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note (2) to the financial statements, the University implemented the provisions of Governmental Accounting Standards Board (GASB) Statements No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* for the year ended June 30, 2018, which represents a change in accounting principle. As of July 1, 2017, the University's net position was restated to reflect the impact of adoption. A summary of the restatement is presented in Note (2). Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 – 12, the Schedule of Proportionate Share of Net Pension Liability and Contributions on page 76, and the Schedule of Proportionate Share on Net OPEB Liability and Contributions on page 77 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2018, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
October 12, 2018

Shepherd University

Management Discussion and Analysis

Fiscal Years 2018 and 2017

About Shepherd University

Shepherd University (the "University") is a state-supported institution within the West Virginia system of higher education. The University was founded in 1871. It offers Bachelor of Arts, Bachelor of Fine Arts, and Bachelor of Science degrees in a wide range of fields, encompassing the liberal arts, business administration, teacher education, the social and natural sciences, and other career oriented areas. Graduate programs include the Master of Arts in Teaching, Master of Arts in Curriculum and Instruction, Master of Business Administration, the Master of Arts in College Student Development and Administration, and the Master of Science in Data Analytics and Information Systems. The University began its doctoral program in Nursing Practice in fall of 2015. The University is accredited by The Higher Learning Commission of the North Central Association.

Overview of the Financial Statements and Financial Analysis

This discussion will emphasize significant changes reflected in the fiscal year 2018 data compared to the financial statements presented for fiscal year 2017. There are three financial statements presented: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. This discussion and analysis of the University's financial statements provides an overview of its financial activities for the year and its required supplemental information.

Statement of Net Position

The Statement of Net Position presents end-of-year data concerning assets (current and noncurrent), deferred outflow of resources, liabilities (current and noncurrent), deferred inflow of resources and net position (assets and deferred outflows of resources minus liabilities and deferred inflows of resources) of the University as of June 30, 2018, and 2017. The difference between current and noncurrent assets and liabilities are discussed in the footnotes to the financial statements.

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors and lending institutions. Finally, the Statement of Net Position provides a picture of net position and the availability of carry over funds for use by the University in future years.

Components of net position are divided into three major categories. The first category, net investment in capital assets, provides the institution's equity in property, plant, and equipment owned by the institution, net of any accumulated depreciation and related debts. The second asset category is restricted, which is divided into two categories, nonexpendable and expendable. Shepherd University does not currently have nonexpendable restricted resources since all funds of this nature are directed to the Shepherd University

Foundation. The corpus of nonexpendable restricted resources would be available only for investment purposes. Expendable restricted resources are available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The third category is unrestricted net position. Unrestricted net position is available for any lawful purpose of the institution.

Condensed Schedules of Net Position

(In thousands)

	June 30		
	2018	2017*	2016*
Assets:			
Cash	$ 11,019	$ 14,566	$ 16,260
Other Current Assets	2,242	1,603	1,938
Noncurrent Assets	117,896	123,315	127,425
Total Assets	131,157	139,484	145,623
Total Deferred Outflows of Resources	847	87	54
Total Assets and Deferred Outflow of Resources	132,004	139,571	145,677
Liabilities:			
Current Liabilities	8,110	7,950	7,718
Noncurrent Liabilities	47,168	51,484	52,120
Total Liabilities	55,278	59,434	59,838
Total Deferred Inflows of Resources	1,798	195	287
Total Liabilities and Deferred Inflows of Resources	57,076	59,629	60,125
Net Position:			
Net Invesment in Capital Assets	78,308	81,731	85,100
Restricted - Expendable	513	442	281
Unrestricted	(3,893)	(2,231)	170
Total Net Position	$ 74,928	$ 79,942	$ 85,551

* Does not include the effects of GASB 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*"

Assets

Total Assets decreased approximately 5.4 percent to $132 million compared to $139.6 million for 2017 and compared to a decline of 4.18 percent, $6.1 million from 2016 to 2017. However, within current assets, cash decreased by $3.55 million from the previous year. This continued the trend from 2016 to 2017 of cash decline of $1.69 million. The decrease in cash is primarily due to the Operational Expenses exceeding

Revenues. The continuing decline in student enrollments has resulted in a decline in Tuition & Fee revenues in spite of a 3 percent Tuition & Fee increase in 2018.

The majority of non-current assets are comprised of capital assets. These assets are reported net of accumulated depreciation. The University's annual investment in capital projects and equipment can significantly impact the value of non-current assets from year to year. The University again deferred any noncritical large capital projects in 2018 that would have offset accumulated depreciation. Non-current assets decreased by $5.4 million compared to 2017 continuing the trend from 2016 to 2017 which declined $4.11 million.

The net result of fiscal year 2018 activities resulted in a $7.6 million decrease in total assets.

Deferred Outflows of Resources:

Deferred outflows of resources represent the consumption of net position by the University that is applicable to future years. There was an increase of $759,616 in Deferred Outflows from FY 2017 to FY 2018, as a direct result of the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. In 2018, the University had combined deferred outflows of resources related to pensions and other postemployment benefits of $847,296, as required by both GASB 68 and GASB 75. This deferred outflow of resources directly relates to the required contributions the University has made on behalf of employees enrolled in the defined benefit pension plan (GASB 68) and contributions the University has made on behalf of employees eligible to receive other postemployment benefits (GASB 75).

Liabilities:

Liabilities include but are not limited to accounts payable, accrued liabilities, unearned revenues, bond payable and other post-employment benefits (OPEB) liability. Total Liabilities decreased 7 percent, $4.16 million from 2017 to 2018 while they remained relatively flat, decreasing 0.67 percent, $404,000 from 2016 to 2017.

Significant changes include:

- An increase in Accounts payable of $73,942 from 2017 to 2018 related to, in part, the additional state procurement requirements which delayed the processing of payables.

- A decrease in Accrued Liabilities of $339,223 due primarily to a decrease in accrued payroll resulting from payroll vacancies during the fiscal year.

- A decrease in the OPEB liability of $2,123,536 is due to the implementation of GASB 75 and is based on the actuarial calculations provided by the state. The state has established the West Virginia Retirees Health Benefit Trust Fund which will be used to eliminate the liability over time.

- A decrease in bonds payable of $1,627,387 and a decrease in Capital Lease Obligations of $144,850 resulting from principal payments. The decrease in the note payable of $150,000 is the result of semi-annual principal payments.

Deferred Inflows of Resources:

Deferred inflows of resources are the acquisitions of net position by the University that are applicable to future years. In 2018, the University had deferred inflows of resources related to pensions and other postemployment benefits of $1,798,343, as a direct result of the ongoing calculations provided by the state as they pertain to GASB Statement No. 68 and to GASB Statement No. 75.

Net Position

From 2017 to 2018 total net position decreased by $5.01 million. Unrestricted net position overall decreased significantly by $1.66 million as a result of GASB No. 68 and GASB No. 75 requirements to record the unfunded pension liabilities and the other post-employment benefit liabilities. In addition, the total net position decrease resulted from the continuing decline in operating results due to the enrollment declines and lack of sufficient funding from State appropriations. This continued the trend from 2016 to 2017 in which there was a decline in net position of $5.6 million.

Statement of Revenues, Expenses, and Changes in Net Position

Changes in total net position on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of the statement is to present the revenues received and expenses paid by the institution, both operating and non-operating, and any other revenues, expenses, gains, and losses received or expended by the University.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Revenues received for which goods and services are not provided are reported as non-operating revenues. For example, State appropriations are non-operating because they are provided by the State to the institution without the State directly receiving commensurate goods and services for those revenues.

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

(In thousands)

	Years Ended June 30,		
	2018	2017*	2016*
Operating Revenues	$ 37,297	$ 39,192	$ 40,808
Operating Expenses	58,393	58,432	59,002
Operating Loss	(21,096)	(19,240)	(18,194)
Nonoperating Revenues - Net	15,104	13,630	13,920
Decrease in Net Position	(5,992)	(5,610)	(4,274)
Net Position - Beginning of Year	79,941	85,551	92,089
Cummulative effect of change in accounting principle	979	-	-
Net Position - Beginning of Year, restated	80,920	85,551	89,825
Net Position - End of Year	$ 74,928	$ 79,941	$ 85,551

* Does not include the effects of GASB 75, *"Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions."*

Operating Revenues:

Operating revenues consist of student tuition and fees, contracts and grants, interest on student loans receivable, sales and services of educational activities, auxiliary enterprise revenue and other operating revenues. Total operating revenues for 2018 decreased by $1.9 million or 4.8 percent compared to the 4 percent, $1.6 million decline from 2016 to 2017.

During fiscal year 2018, student tuition and fees revenue decreased from 2017 by $1.312 million or 7.5 percent due to a combination of a 3.0 percent tuition increase and a continuing enrollment shortfall. Overall, student tuition and fees as a percentage of total operating revenues decreased from 44.8 percent to 43.6 percent.

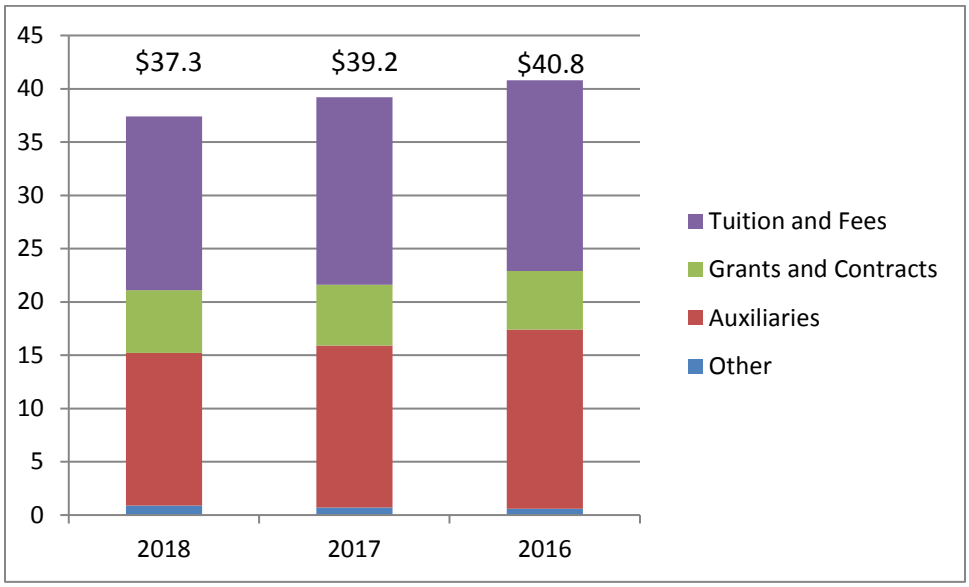
Grants and contracts comprise approximately 15.7 percent of the operating revenues and total $5.9 million in 2018. This is a $171,867 increase from 2017, which is a result of an increase in federal grants of $68,471, an increase in state grants of $69,145 and an increase in private grants of $34,251.

Auxiliary Enterprise Revenue, which includes resources generated by the operation of the bookstore, wellness center, dining services and residence halls, experienced a decrease of $950,824 or 6.3 percent in 2018. The decrease is partially attributed to the enrollment shortfall experience throughout the year. It is further

impacted by the opening of Potomac Place which is owned by the Shepherd University Foundation Supporting Organization (SUFSO). This continues the declining trend from 2016 to 2017 of 9.6 percent, $1.6 million.

Operating Revenues – FY 2018-2016

(In millions)



Operating Expenses:

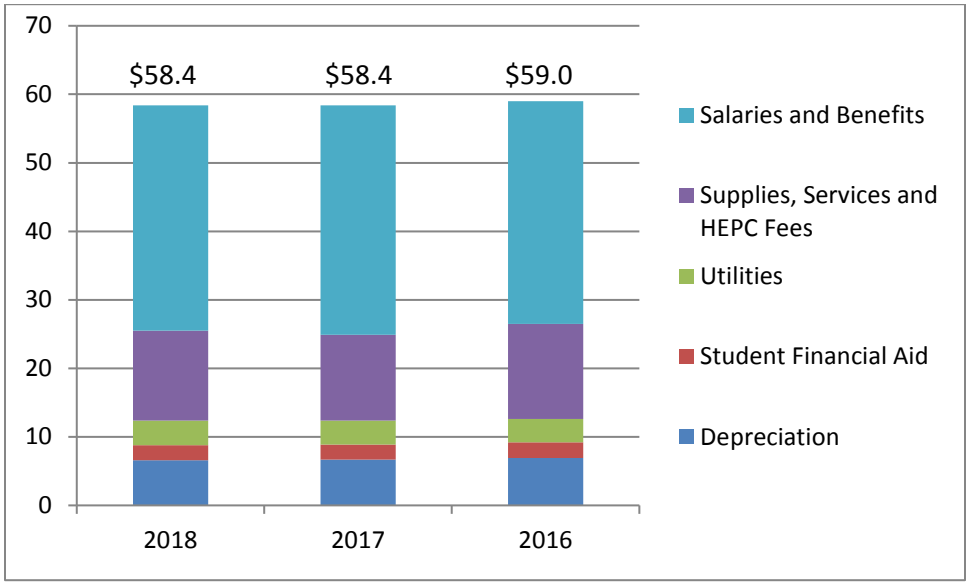
Overall, 2018 operating expenses decreased marginally when compared to 2017, by $39,373. The rate of decline increased when compared to the decrease of $570,000 from 2016 to 2017.

Salaries and benefits represent 56.3 percent of the total 2018 operating expenses, a 1.8% decrease over 2017. Employee compensation, including benefits, decreased by $624,680 compared to 2017. This was the result of vacancy salary savings partially offset by salary equity adjustments, faculty promotions and the inception of compliance with GASB 75 related to Other Post-Employment Benefits (OPEB). The reductions in salaries and benefits expense, ($624,680) decreases in Depreciation expense, ($89,626) and Fees assessed by the Commission, ($17,173) were offset by increases in Supplies and other services, ($577,870) and Student Financial Aid, ($72,641). There was a slight increase in Utilities, ($41,595) year-over-year due to a billing correction for water and sewer from the Corporation of Shepherdstown.

The University continued to implement University-wide cost containment strategies to offset fixed cost increases for 2018.

Operating Expenses – FY 2018-2016

(In millions)



Non-operating Revenues (Expenses)

Net Nonoperating Revenues slightly increased by $1.473 million, 10.8 percent in 2018.

Interest Expense decreased $764,260 due to the full-year effect of the 2017 refinancing of the 2005 and 2007 Bonds at a lower interest rate. Gifts increased $145,838 and PELL increased $323,157.

The net result of operating and non-operating revenues and expenses was a loss of approximately $5.99 million.

Statement of Cash Flows

The final statement presented by the University is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the University during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from noncapital financing

activities. This section reflects the cash received and spent for non-operating, non-investing, and non-capital financing purposes. The third section deals with cash flows from capital and related financing activities. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Position.

Cash inflows from operating activities include tuition and fees, auxiliary enterprise charges, and contracts and grants. Major cash outlays in operating activities include payments to and on behalf of employees of $34.1 million and payments to suppliers of $12.3 million. Net cash used for operating activities increased by $2.3 million from 2017 to 2018 primarily due to the continuing decline in enrollment. This resulted in the reduction in Student Tuition & Fees of $703,869 and Auxiliary Enterprise charges of $928,987. Increases in salaries and benefits total $1.4 million. Payments to Suppliers decreased by $647,838, while payments to Utilities decreased $25,315. In addition, Contract & Grant revenues decreased by $13,950 from 2018 to 2017.

Capital financing activities represent funds that were used to purchase or add value to capital assets. Even though as in 2017, the University did not undertake any substantial capital projects for 2018, the 2005 and 2007 bonds were refinanced to take advantage of reduced interest rates. Capital asset purchases were kept to a minimum, with an $844,322 reduction over 2017. A five year no-interest loan from HEPC for $750,000 was secured to help with the Sara Cree building demolition in 2017.

Overall cash and cash equivalents at 2018 year–end decreased $3.5 million.

Condensed Consolidated Schedules of Cash Flows

(In thousands)

	Years Ended June 30,		
	2018	2017	2016
Net cash (used in) provided by:			
Operating activities	$ (14,685)	$ (12,413)	$ (11,049)
Noncapital financing activities	16,084	15,610	15,688
Capital and related financing activities	(5,129)	(5,008)	(6,319)
Investing activites	183	117	61
Increase (decrease) in Cash	(3,547)	(1,694)	(1,619)
Cash and cash equivalents - beginning of year	14,566	16,260	17,879
Cash and cash equivalents - end of year	$ 11,019	$ 14,566	$ 16,260

Economic Outlook

Shepherd's financial strength and capabilities continue to be challenged by declining enrollment that is evidenced throughout the country. While the decline in enrollment continued in FY18, the rate of decline is slowing. This positive sign resulted from focused and strategic collaborative efforts to enhance enrollment through recruitment of both in-state and out-of-state students and to retain current students.

The dual-enrollment of high school students in local high schools and expanding recruitment efforts into neighboring out-of-state counties furthers the accomplishment of targeted growth. In addition, marked increases in the retention rates continue as a result of the Student Success program. This program assists students who face many challenges through the transitional period as they enter higher education. A second initiative to improve retention is the Retention Interventions Team (RIT) which provides every undergraduate with a dedicated staff advocate. Rigorous efforts are being made to maximize every opportunity to improve student success, which further increases the ability to retain existing students. Attracting more international students to Shepherd is also a strategy the University is employing to advance the long-term enrollment and revenue growth.

Shepherd University's state appropriation remained level in FY18 as compared to FY17. This was the first of several years where there was no reduction in the appropriation. The ongoing insufficient state investment remains a primary driver for determining the University's FY19 operating budget. Although, Shepherd's reliance upon state investment is among the lowest in the state, ongoing insufficient financial support by the state in higher education continues to cause the University to examine existing resources, implement cost containment measures and seek enhancement of new revenue opportunities.

The first of these new revenue opportunities includes the completion and opening of Shepherd University's new, 5-story, 81,000 square foot residence hall on West Campus in fall, 2017. This new housing is named Potomac Place and provides 298 beds and numerous amenities, including the Riverside Café. The residence hall is owned by the Shepherd University Foundation Supporting Organization (SUFSO). Shepherd University provides management of the residence hall and will be paid a ground lease payment at the culmination of each fiscal year.

The University Bookstore entered into a contract with Follett to assume ownership and operations of the bookstore. This transition occurred in April, 2018 and will provide a broader scope of products for fulfillment of academic books and supplies with competitive pricing. University staff and management of the Bookstore will be offered employment by Follett. Commissions paid to the University by Follett will be utilized to fund student scholarships.

At the end of FY18, the University selected Chartwell's to assume the ownership and operations of University dining services. Transition will occur during summer, 2018 and will provide additional dining options for students at various locations across campus. In addition, the former staff and management employed by the University will be offered employment by Chartwell's. Students will not experience changes in the meal plans and rates for the coming year. Billing students for their meal plan charges will continue to be included in the total charges billed each semester by the University. The University will remit these funds to Chartwell's, who will remit commission revenue to the University throughout the year.

The Shepherd University Advancement Office in partnership with the Shepherd University Foundation continues to increase efforts to raise funds to provide sustaining support for academic, scholarship, cultural and athletic programs; faculty and staff development; campus renewal and beautification; and other department programs and initiatives. Outreach to alumni and regional business leaders continues, not only for financial assistance but for ongoing assessment of existing academic programs and development of new programmatic initiatives.

Management recommendations for setting tuition rates will continue to be focused and strategic to balance student affordability with the need for increased revenue. In consideration of the continuing enrollment decline, the focus in the upcoming years will be to control costs to students, while attracting additional residential and out-of-state students.

The University staff and Board of Governors continues these efforts and will implement new strategies and initiatives to sustain programs and activities, plan for future challenges and growth, and strengthen the institution's financial position.

Contacting The University's Financial Management

This financial report is designed to provide a general overview of the University's finances and to demonstrate the University's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the University's Vice President for Finance / Chief Financial Officer at (304) 876-5287, or by mail at:

Shepherd University
Pamela W. Stevens
Vice President for Finance / Chief Financial Officer

SHEPHERD UNIVERSITY

STATEMENTS OF NET POSITION
AS OF JUNE 30, 2018 AND 2017

ASSETS AND DEFERRED OUTFLOWS	2018	2017
CURRENT ASSETS:		
Cash and cash equivalents	$ 11,018,880	$ 14,565,622
Accounts receivable — net	2,109,376	1,080,786
Due from Commission	16,097	13,037
Loans to students — current portion	100,091	100,091
Inventories	16,299	409,110
Total current assets	13,260,743	16,168,646
NONCURRENT ASSETS:		
Other Receivable	217,675	254,640
Loans to students — net of allowance of $480,407 and $462,518 in 2018 and 2017, respectively	317,245	353,088
Capital assets — net	117,361,847	122,707,404
Total noncurrent assets	117,896,767	123,315,132
TOTAL ASSETS	131,157,510	139,483,778
TOTAL DEFERRED OUTFLOW OF RESOURCES:		
Deferred outflows related to pensions and OPEB	847,296	87,680
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	$ 132,004,806	$ 139,571,458

(Continued)

Accounts payable	$ 1,262,922	$ 1,188,980
Accrued liabilities	2,757,270	3,096,493
Compensated absences — current portion	737,330	782,163
Unearned revenues	1,195,825	815,126
Deposits held in custody for others	178,687	147,722
Bonds payable — current portion	1,680,678	1,625,183
Note payable and capital lease obligations — current portion	297,277	294,850
Total current liabilities	8,109,989	7,950,517
NONCURRENT LIABILITIES:		
Advances from federal sponsors	403,418	498,861
Compensated absences	415,010	407,363
Other postemployment benefits liability	9,006,820	11,130,356
Net pension liability	266,966	391,112
Bonds payable, net of current portion	36,526,215	38,209,097
Note payable and capital lease obligations, net of current portion	549,946	847,223
Total noncurrent liabilities	47,168,375	51,484,012
Total liabilities	55,278,364	59,434,529
DEFERRED INFLOW OF RESOURCES:		
Deferred inflows related to pensions and OPEB	1,798,343	195,219
NET POSITION:		
Net Investment in capital assets	78,307,730	81,731,051
Restricted — expendable:		
Loans	82,432	94,361
Other restricted	430,751	347,568
Total restricted - expendable	513,183	441,929
Unrestricted	(3,892,814)	(2,231,269)
Total net position	74,928,099	79,941,711
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION	$ 132,004,806	$ 139,571,459

See notes to financial statements. (Concluded)

SHEPHERD UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
OPERATING REVENUES:		
Student tuition and fees — net of scholarship allowance of $11,618,993 and $10,990,322 in 2018 and 2017, respectively	$ 16,262,776	$ 17,574,478
Contracts and grants:		
Federal	1,807,529	1,739,058
State	3,987,880	3,918,735
Private	60,945	26,694
Interest on student loans receivable	15,364	18,951
Sales and services of educational activities	49,530	50,491
Auxiliary enterprise revenue — net of scholarship allowance of $1,193,611 and $869,902 in 2018 and 2017, respectively	14,259,962	15,210,786
Other operating revenues	852,637	653,420
Total operating revenues	37,296,623	39,192,613
OPERATING EXPENSES:		
Salaries and wages	26,695,420	27,063,149
Benefits	6,207,890	6,464,841
Supplies and other services	12,828,534	12,250,664
Utilities	3,553,550	3,511,955
Student financial aid — scholarships and fellowships	2,236,855	2,164,214
Depreciation	6,628,656	6,718,282
Fees assessed by the Commission for operations	242,126	259,299
Total operating expenses	58,393,031	58,432,404
OPERATING LOSS	(21,096,408)	(19,239,791)

(Continued)

SHEPHERD UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
NONOPERATING REVENUES (EXPENSES):		
State appropriations	$ 9,360,954	$ 9,360,954
Payments on behalf of the University	628,045	69,507
Federal Pell grants	5,109,498	4,786,341
Investment income	183,348	116,798
Interest expense	(1,427,510)	(2,191,770)
Fees assessed by the Commission for debt service	(18,303)	(18,520)
Gifts	1,657,644	1,511,806
Gain (loss) on disposal of equipment	(389,986)	(4,910)
Net nonoperating revenues	15,103,690	13,630,206
DECREASE IN NET POSITION	(5,992,718)	(5,609,585)
NET POSITION — Beginning of year	79,941,711	85,551,296
Cummulative effect of change in accounting principle	979,106	-
NET POSITION - Beginning of year, as restate	80,920,817	85,551,296
NET POSITION — End of year	$ 74,928,099	$ 79,941,711

See notes to financial statements. (Concluded)

SHEPHERD UNIVERSITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	$ 16,736,040	$ 17,439,909
Contracts and grants	5,747,629	5,761,579
Payments to and on behalf of employees	(34,127,228)	(32,704,325)
Payments to suppliers	(12,310,591)	(12,958,429)
Payments to utilities	(3,495,990)	(3,521,305)
Payments for scholarships and fellowships	(2,236,855)	(2,163,011)
Loans issued to students	(56,600)	(52,000)
Collection of loans to students	107,807	119,760
Sales and service of educational activities	49,530	50,492
Auxiliary enterprise charges	14,290,927	15,219,914
Fees assessed by the Commission	(242,126)	(259,299)
Other receipts — net	852,638	653,420
Net cash used in operating activities	(14,684,819)	(12,413,295)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	9,360,954	9,360,954
Federal Pell grants	5,109,498	4,786,341
Gifts	1,657,644	1,511,806
Federal student loan program — direct lending receipts	17,233,702	18,146,795
Federal student loan program — direct lending payments	(17,277,527)	(18,195,803)
Net cash provided by noncapital financing activities	16,084,271	15,610,093
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Capital note and bond proceeds from the State	-	750,000
Interest paid on capital debt and leases	(1,427,510)	(2,191,770)
Purchases of capital assets	(1,763,696)	(2,608,018)
Bond and lease proceeds	-	35,282,000
Principal paid on capital debt and leases	(1,920,033)	(36,221,364)
Withdrawals from (deposits to) noncurrent cash and cash equivalents	-	-
Fees assessed by the Commission	(18,303)	(18,520)
Net cash used in capital financing activities	(5,129,542)	(5,007,672)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on investments	183,348	116,798
Net cash provided by investing activities	183,348	116,798
DECREASE IN CASH AND CASH EQUIVALENTS	(3,546,742)	(1,694,076)
CASH AND CASH EQUIVALENTS — Beginning of year	14,565,622	16,259,698
CASH AND CASH EQUIVALENTS — End of year	$ 11,018,880	$ 14,565,622

(Continued)

SHEPHERD UNIVERSITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (21,096,408)	$ (19,239,791)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	6,628,656	6,718,282
Net accretion of premiums/discounts on bonds payable	(2,204)	(449,743)
Effect of changes in operating Assets and Liabilities:		
Accounts receivables — net	(984,765)	206,640
Other receivable	36,965	52,218
Loans to students — net	35,843	48,809
Due from the Commission	(3,060)	29,904
Inventories	392,811	147,909
Accounts payable	164,553	(425,868)
Accrued liabilities	(339,224)	260,484
Compensated absences	(37,185)	(20,104)
Other postemployment benefits liability	1,021,560	306,344
Net pension liability	(818,583)	7,075
Deferred revenue	380,699	(53,973)
Deposits held in custody for others	30,965	9,128
Advances from federal sponsors	(95,442)	(10,609)
NET CASH USED IN OPERATING ACTIVITIES	$ (14,684,819)	$ (12,413,295)
NONCASH TRANSACTIONS		
Property additions in accounts payable	$ 90,611	$ 106,535

See notes to financial statements. (Concluded)

SHEPHERD UNIVERSITY

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2018 AND 2017

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

See notes to financial statements.

SHEPHERD UNIVERSITY

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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

(Continued)

SHEPHERD UNIVERSITY

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

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

(Concluded)

See notes to financial statements.

1. ORGANIZATION

Shepherd University (the "University") is governed by the Shepherd University Board of Governors (the "Board"). The Board was established by Senate Bill 653 (S.B. 653).

Powers and duties of the Board include, but are not limited to, the power to determine, control, supervise, and manage the financial, business, and educational policies and affairs of the University under its jurisdiction; the duty to develop a master plan for the institution; the power to prescribe the specific functions and the University's budget request; the duty to review at least every five years all academic programs offered at the University; and the power to fix tuition and other fees for the different classes or categories of students enrolled at its institution.

S.B. 653 also created the West Virginia Higher Education Policy Commission (the "Commission"), which is responsible for developing, gaining consensus around, and overseeing the implementation and development of a higher education public policy agenda.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the University have been prepared in accordance with generally accepted accounting principles as prescribed by Governmental Accounting Standards Board standards (GASB). The financial statement presentation required by GASB provides a comprehensive, entity-wide perspective of the University's assets, liabilities, deferred inflows and outflows of resources, net position, revenues, expenses, changes in net position, and cash flows.

Reporting Entity — The University is a component unit of the State of West Virginia (the "State"), and an operating unit of the West Virginia Higher Education Fund and represents separate funds of the State that are not included in the State's general fund. The University is a separate entity which, along with all the State institutions of higher education, the Commission (which includes West Virginia Network for Educational Telecomputing (WVNET)), and West Virginia Council for Community and Technical College Education, form the Higher Education Fund of the State. The Higher Education Fund is considered a component unit of the State, and its financial statements are discretely presented in the State's comprehensive annual financial report.

The accompanying financial statements present all funds under the authority of the University, including its blended component unit, the Shepherd University Research Corporation (the "Research Corporation"), a nonprofit, nonstock corporation. The basic criterion for inclusion in the accompanying financial statements is the exercise of oversight responsibility derived from the University's ability to significantly influence operations and accountability for fiscal matters of the Research Corporation.

The audited financial statements of Shepherd University Foundation, Incorporated (the Foundation) are discretely presented here with the University's financial statements for the fiscal years ended June 30, 2018 and 2017, in accordance with GASB as a benefit/burden relationship exists between the University and the Foundation. The Foundation is a private nonprofit organization that reports under FASB standards. As such, certain revenue recognition criteria and presentation features are different from

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's audited financial information as it is presented herein (see also Notes 14 and 20).

Financial Statement Presentation — GASB establishes standards for external financial reporting for public colleges and universities and requires that financial statements be presented to focus on the University as a whole. The University's net position is classified into three categories according to external donor restrictions or availability of assets for satisfaction of the University's obligations. The University's components of net position are classified as follows:

Net Investment in Capital Assets — This represents the University's total investment in capital assets, net of depreciation and outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included.

Restricted — Expendable — This includes resources in which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

The West Virginia State Legislature (the "State Legislature"), as a regulatory body outside the reporting entity, has restricted the use of certain funds by Article 10, *Fees and Other Money Collected at State Institutions of Higher Education*, of the West Virginia State Code. House Bill 101 passed in March 2004 simplified the tuition and fee restrictions to auxiliaries and capital items. These activities are fundamental to the normal ongoing operations of the institution. These restrictions are subject to change by future actions of the State Legislature.

Restricted — Nonexpendable — This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The University does not have any restricted nonexpendable component of net position at June 30, 2018 or 2017.

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Noncurrent Cash, Cash Equivalents, and Investments — Cash, cash equivalents, and investments that are (1) externally restricted to make debt service payments and long-term loans to students, or to maintain sinking or reserve funds, (2) to purchase capital or other noncurrent assets or settle long-term liabilities, and (3) permanently restricted components of net position, are classified as noncurrent assets in the accompanying statements of net position.

Capital Assets — Capital assets include property, plant, and equipment, books and materials that are part of a catalogued library, and infrastructure assets. Capital assets are stated at cost at the date of acquisition or construction, or acquisition value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and infrastructure, 20 years for land improvements and library books, and 3 to 10 years for furniture and equipment. The University capitalizes all purchases of library books using group depreciation and uses a capitalization threshold of $1,000 for other capital assets.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

the fiduciary net position of the West Virginia Teachers' Retirement System (TRS), administered by the West Virginia Consolidated Public Retirement Board (CPRB), and additions to/reductions from the TRS fiduciary net position have been determined on the same basis as they are reported in the TRS financial statements, which can be found at https://www.wvretirement.com/Publications.html#CAFR . The plan schedules of TRS are prepared using the accrual basis of accounting and economic resources measurement focus in accordance with U.S. GAAP as prescribed by GASB. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Investments are reported at fair value. Detailed information on investment valuation can be found in the TRS financial statements. Management of TRS has made certain estimates and assumptions relating to employer allocation schedules, and actual results could differ. (See Note 13).

Other Postemployment Benefits (OPEBs) — GASB provides standards for the measurement, recognition, and display of OPEB expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for postemployment benefits for the State. Effective July 1, 2007, the University was required to participate in this multiple employer cost-sharing plan, the West Virginia Retiree Health Benefit Trust Fund, sponsored by the State of West Virginia. Details regarding this plan and its stand-alone financial statements can be obtained by contacting the West Virginia Public Employees Insurance Agency (PEIA), State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston, WV 25305-0710 or http://www.wvpeia.com.

Deferred Outflows of Resources – Consumption of net position by the University that is applicable to a future fiscal year is reported as a deferred outflow of resources on the statement of net position. As of June 30, 2018 and 2017, the University had deferred outflows of resources related to pensions and OPEB of $847,296 and $87,680, respectively (see Notes 9 and 13).

Deferred Inflows of Resources - Acquisition of net position by the University that is applicable to a future fiscal year is reported as a deferred inflow of resources on the statement of net position. As of June 30, 2018 and 2017, the University had deferred inflows of resources related to pensions and OPEB of $1,798,343 and $195,219, respectively (see Notes 9 and 13).

Compensated Absences — GASB requires entities to accrue for employees' rights to receive compensation for vacation leave or payments in lieu of accrued vacation or sick leave as such benefits are earned and payment becomes probable. The University's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1 1/2 sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. For employees hired after 1988 or who were hired before 1988 but did not choose such coverage until after 1988 but before July 1, 2001, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired on July 1, 2001, or later will no longer receive sick leave credit toward insurance premiums when they retire. Additionally, all retirees have the option to purchase continued coverage regardless of their eligibility for premium credits. This liability is now provided for under the multiple employer cost-sharing plans approved by the State.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Certain faculty employees (generally those with less than a 12-month contract) earn a similar extended health or life insurance coverage retirement benefit based on years of service. Generally 3 1/3 years of teaching service extend health insurance for one year of single coverage and five years extend health insurance for one year of family coverage. The same hire date mentioned above also applies to coverage for faculty employees. Faculty hired after July 1, 2009, will no longer receive years of service credit toward insurance premiums when they retire. Employees hired after July 1, 2010 receive no health insurance premium subsidy from the University. Two groups of employees hired after July 1, 2010 will not be required to pay the unsubsidized rate: 1) active employees who were originally hired before July 1, 2010, who have a break in service of fewer than two years after July 1, 2010; and 2) retired employees who retired before July 1, 2010, return to active service after July 1, 2010, and then go back into retirement. In those cases, the original hire date will apply.

The estimated expense and expense incurred for the vacation leave or OPEB benefits are recorded as a component of benefits expense in the statements of revenues, expenses, and changes in net position.

Risk Management — The State's Board of Risk and Insurance Management (BRIM) provides general, property and casualty, and liability coverage to the University and its employees. Such coverage may be provided to the University by BRIM through self-insurance programs maintained by BRIM or policies underwritten by BRIM that may involve experience-related premiums or adjustments to BRIM.

BRIM engages an independent actuary to assist in the determination of its premiums so as to minimize the likelihood of premium adjustments to the University or other participants in BRIM's insurance programs. As a result, management does not expect significant differences between the premiums the University is currently charged by BRIM and the ultimate cost of that insurance based on the University's actual loss experience. In the event such differences arise between estimated premiums currently charged by BRIM to the University and the University's ultimate actual loss experience, the difference will be recorded as the change in estimate becomes known.

In addition, through its participation in the PEIA and third-party insurers, the University has obtained health, life, prescription drug coverage, and coverage for job-related injuries for its employees. In exchange for payment of premiums to PEIA and the third-party insurer, the University has transferred its risks related to health, life, prescription drug coverage, and job-related injuries.

Classification of Revenues — The University has classified its revenues according to the following criteria:

Operating Revenues — Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances; (3) most federal, state, local, and nongovernmental operating grants and contracts; and (4) sales and services of educational activities.

Nonoperating Revenues — Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB, such as state appropriations, federal Pell grants, and investment income, and sale of capital assets (including natural resources).

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Federal Financial Assistance Programs — The University makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students, through entities like the University. Direct student loan receivables are not included in the University's statements of net position, as the loans are repayable directly to the U.S. Department of Education. In 2018 and 2017, the University received and disbursed approximately $17 million under the Federal Direct Student Loan Program on behalf of the U.S. Department of Education, which is not included as revenue and expense in the statements of revenues, expenses, and changes in net position.

The University also distributes other student financial assistance funds on behalf of the federal government to students under the federal Pell Grant, Supplemental Educational Opportunity Grant, SMART Grant, College Work Study programs Grant, and Academic Competitiveness Grant. The activity of these programs is recorded in the accompanying financial statements. In 2018 and 2017, the University received and disbursed $5,317,169 and $4,966,732, respectively, under these federal student aid programs.

Scholarship Allowances — Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the statements of revenues, expenses, and changes in net position. Scholarship allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the student's behalf.

Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers. Certain aid, such as loans, funds provided to students as awarded by third parties, and Federal Direct Lending, is accounted for as a third-party payment (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on a University basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third-party aid.

Government Grants and Contracts — Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The University recognizes revenue associated with direct costs as the related costs are incurred. Recovery of related indirect costs is generally recorded at fixed rates negotiated for a period of one to five years.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Reclassifications – Certain reclassifications have been made to the prior year presentation to conform to the current year presentation. The reclassifications did not affect net position or changes thereon.

The University has implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This Statement will require the University to reports its share of the net OPEB liability and expense, as allocated to it by the West Virginia Retiree Health Benefit Trust Fund (RHBT). The balance of the net OPEB liability and related deferred outflows of resources and deferred inflows of resources at July 1, 2016 is reported on the Statement of Revenues, Expenses, and Changes in Net Position as a restatement to the 2017 Net Position – beginning of year. The RHBT was not able to provide sufficient information to restate the financial statements for the period ending June 30, 2017.

	2018
Net Position - begninning of year, as previously reported	$ 79,941,711
Balance of the net OPEB liability and related deferred outflows of resources and deferred inflows of resources	979,106
Net Position- beginning of year, as restated	$ 80,920,817

Newly Adopted Statements Issued by the Governmental Accounting Standards Board —The GASB has also issued Statement No. 81, *Irrevocable Split-Interest Agreements,* which was effective for fiscal years beginning after December 15, 2016. This statement establishes recognition and measurement requirements for irrevocable split-interest agreements created through trusts – or other legally enforceable agreements with characteristics that are equivalent to irrevocable split-interest agreements – in which a donor irrevocably transfers resources to an intermediary. The intermediary administers these resources for the unconditional benefit of a government or at least one other beneficiary. The University has determined it has no irrevocable split-interest agreements.

The GASB has also issued Statement No. 86, *Certain Debt Extinguishment Issues,* which was effective for fiscal years beginning after June 15, 2017. Statement No. 86 provides guidance for transactions in which cash and other monetary assets acquired with existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. The adoption of this standard had no effect on the University's financial statements.

The GASB has also issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which was effective for fiscal years beginning after

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

June 15, 2017. This statement establishes standards of accounting and financial reporting for defined benefit other postemployment benefits and defined contribution other postemployment benefits that are provided to the employees of state and local governmental employers through other postemployment benefit plans that are administered through trusts or equivalent arrangements that meet certain criteria. This statement also establishes standards of accounting and financial reporting for defined benefit other postemployment benefits and defined contribution other postemployment benefits that are provided to the employees of state and local governmental employers through other postemployment benefit plans that are not administered through trusts that meet certain criteria. The adoption of this standard had an effect on the University's financial statements, please see footnote 9 for more detail regarding the effect.

The GASB has also issued Statement No. 85, *Omnibus 2017*, which was effective for fiscal years beginning after June 15, 2017. Statement No. 85 addresses practice issues that have been identified during implementation of certain GASB statements. The adoption of this statement had no effect on the University's financial statements.

Recent Statements Issued by the Governmental Accounting Standards Board — The GASB has also issued Statement No. 83, *Certain Asset Retirement Obligations*, which is effective for fiscal years beginning after June 15, 2018. Statement No. 83 establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for legally enforceable liabilities associated with the retirement of tangible capital assets. Examples of asset retirements covered under this standard are the decommissioning of a nuclear reactor or the dismantling and removal of sewage treatment plants as required by law. The University has not yet determined the effect that the adoption of GASB Statement No. 83 may have on its financial statements.

The GASB has also issued Statement No. 84, *Fiduciary Activities*, which is effective for fiscal years beginning after December 15, 2018. Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments to determine whether an activity should be reported in a fiduciary fund in the financial statements. The University has not yet determined the effect that the adoption of GASB Statement No. 84 may have on its financial statements.

The GASB has also issued Statement No. 87, *Leases*, which is effective for fiscal years beginning after December 15, 2019. Statement No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. In other words, most leases currently classified as operating leases will be accounted for and reported in the same manner as capital leases. The University has not yet determined the effect that the adoption of GASB Statement No. 87 may have on its financial statements.

The GASB has also issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, which is effective for fiscal years beginning after June 15, 2018. Statement No. 88 establishes clarity for which liabilities governments should include when disclosing information related to debt. The University has not yet determined the effect that the adoption of GASB Statement No. 88 may have on its financial statements.

The GASB has also issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of Construction Period*, which is effective for fiscal years beginning after December 15, 2019.

Statement No. 89 establishes accounting requirements where interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

financial statements prepared using economic resources measurement focus. As a result, interest cost incurred before the end of the construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The University has not yet determined the effect that the adoption of GASB Statement No. 89 may have on its financial statements.

The GASB has also issued Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*, which is effective for fiscal years beginning after December 15, 2018. Statement No. 90 establishes consistency and comparability of reporting a government's majority interest in a legally separate organization to improve the relevance of the financial statement information for certain component units. The University has not yet determined the effect that the adoption of GASB Statement No. 90 may have on its financial statements.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents as of June 30, 2018 and 2017 was as follows:

	2018		
	Current	**Noncurrent**	**Total**
State Treasurer	$ 10,220,761	$ -	$ 10,220,761
Bank	792,838	5,281	798,119
	$ 11,013,599	$ 5,281	$ 11,018,880

	2017		
	Current	**Noncurrent**	**Total**
State Treasurer	$ 13,621,799	$ -	$ 13,621,799
Bank	943,105	718	943,823
	$ 14,564,904	$ 718	$ 14,565,622

Cash and cash equivalents with the State Treasurer included $114,222 in 2018 and $80,346 in 2017 of restricted cash for grants.

The combined carrying amount of cash in bank at June 30, 2018 and 2017 was $798,118 and $943,823 as compared with the combined bank balance of $832,716 and $971,571, respectively.

The difference is primarily caused by outstanding checks and items in transit. The bank balances are covered by federal depository insurance up to specified amounts. At June 30, 2018 and 2017, the

University was exposed to custodial credit risk of $369,363 and $462,482, respectively for amounts that are uninsured and uncollateralized.

3. CASH AND CASH EQUIVALENTS (CONTINUED)

Amounts with the State Treasurer as of June 30, 2018 and 2017, are comprised of three investment pools, the WV Money Market Pool, the WV Government Money Market Pool and the WV Short Term Bond Pool. There was $936,054 in 2018 and $727,027 in 2017 of unrestricted cash held for investment.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The following table provides information on the Standard & Poor's rating of the University's portion of the investment pools as of June 30:

	2018		2017	
External Pool	Carrying Value (in Thousands)	S & P Rating	Carrying Value (in Thousands)	S & P Rating
WV Money Market	$ 9,074,185	AAAm	$ 12,604,639	AAAm
WV Short Term Bond	$ 210,522	Not Rated	$ 290,133	Not Rated

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

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

	2018		2017	
External Pool	Carrying Amount (in thousands)	WAM (days)	Carrying Amount (in thousands)	WAM (days)
WV Money Market	$ 9,074,185	52	$ 12,604,639	52

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

	2018		2017	
External Pool	Carrying Value (in thousands)	Effective Duration (days)	Carrying Value (in thousands)	Effective Duration (days)
WV Short Term Bond	$ 210,522	358	290,133	358

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

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Cash in bank with Trustee is governed by provisions of the bond agreement. The objective of the money

3. CASH AND CASH EQUIVALENTS (CONTINUED)

market fund is to increase the current level of income while continuing to maintain liquidity and capital. Assets are invested in high-quality, short-term money market instruments.

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

Interest rate risk is the risk that changes the interest rates will adversely affect the fair value of an investment. The University's investment policy limits investment maturities from potential fair value losses due to increasing interest rates. No more than 5% of the money market fund's total market value may be invested in the obligations of a single issuer, with the exception of the U.S. government and its agencies.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The University has no securities with foreign currency risk.

4. ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2018 and 2017, are as follows:

	2018	2017
Student tuition and fees — net of allowance for doubtful accounts of $710,520 and $582,896 in 2018 and 2017, respectively	$ 389,602	$ 520,820
Grants and contracts receivable	484,236	401,639
Potomac Place Ground Rent and Management operations	1,007,017	-
Other	228,521	158,327
	$ 2,109,376	$ 1,080,786

5. CAPITAL ASSETS

Summary of capital assets transactions for the University as of June 30, 2018 and 2017, are as follows:

	2018			
	Beginning Balance	**Additions**	**Reductions**	**Ending Balance**
Capital assets not being depreciated:				
Land	$ 1,120,925	$ -	$ -	$ 1,120,925
Construction in progress	1,343,185	657,765	1,410,457	590,493
Total capital assets not being depreciated	2,464,110	657,765	1,410,457	1,711,418
Capital assets being depreciated:				
Land improvements	4,512,490	1,225,950	-	5,738,440
Land improvements - leased	1,825,416	-	-	1,825,416
Infrastructure	14,668,576	97,389	-	14,765,965
Buildings	171,221,223	87,119	1,596,485	169,711,857
Equipment	15,153,032	936,735	368,553	15,721,214
Library books	4,070,696	83,186	-	4,153,882
Total capital assets being depreciated	211,451,433	2,430,379	1,965,038	211,916,774
Less accumulated depreciation for:				
Land improvements	1,832,087	381,777	-	2,213,864
Land improvements - leased	780,257	121,694	-	901,951
Infrastructure	7,497,840	705,569	-	8,203,409
Buildings	66,574,850	4,209,295	1,217,746	69,566,399
Equipment	10,913,562	1,133,690	352,704	11,694,548
Library books	3,609,543	76,631	-	3,686,174
Total accumulated depreciation	91,208,139	6,628,656	1,570,450	96,266,345
Capital assets being depreciated - net	120,243,294	(4,198,277)	394,588	115,650,429
Total Capital Assets	$ 122,707,404	$ (3,540,512)	$ 1,805,045	$ 117,361,847

5. **CAPITAL ASSETS** (CONTINUED)

	2017			
	Beginning Balance	**Additions**	**Reductions**	**Ending Balance**
Capital assets not being depreciated:				
Land	$ 1,120,925	$ -	$ -	$ 1,120,925
Construction in progress	260,305	1,619,234	536,354	1,343,185
Total capital assets not being depreciated	1,381,230	1,619,234	536,354	2,464,110
Capital assets being depreciated:				
Land improvements	4,215,388	297,102	-	4,512,490
Land improvements - leased	1,825,416	-	-	1,825,416
Infrastructure	14,667,151	1,425	-	14,668,576
Buildings	171,002,227	218,996	-	171,221,223
Equipment	14,239,179	1,056,586	142,733	15,153,032
Library books	4,013,134	57,562	-	4,070,696
Total capital assets being depreciated	209,962,495	1,631,671	142,733	211,451,433
Less accumulated depreciation for:				
Land improvements	1,516,327	315,760	-	1,832,087
Land improvements - leased	658,563	121,694	-	780,257
Infrastructure	6,809,968	687,872	-	7,497,840
Buildings	62,258,454	4,316,396	-	66,574,850
Equipment	9,860,689	1,190,696	137,823	10,913,562
Library books	3,523,679	85,864	-	3,609,543
Total accumulated depreciation	84,627,680	6,718,282	137,823	91,208,139
Capital assets being depreciated - net	125,334,815	(5,086,611)	4,910	120,243,294
Total Capital Assets	$ 126,716,045	$ (3,467,377)	$ 541,264	$ 122,707,404

The University maintains various collections of inexhaustible assets to which no value can be determined. Such collections include contributed works of art, historical treasures, and literature that are held for exhibition, education, research, and public service. These collections are neither disposed of for financial gain nor encumbered in any means. Accordingly, such collections are not capitalized or recognized for financial statement purposes.

At June 30, 2018, the University had no significant outstanding contractual commitments for property, plant, and equipment.

6. LONG-TERM LIABILITIES

Summary of long-term obligation transactions for the University for the years ended June 30, 2018 and 2017 are as follows:

	2018				
	Beginning Balance	**Additions**	**Reductions**	**Ending Balance**	**Current Portion**
Bonds, note and capital leases:					
Bonds payable	$ 39,798,098	$ -	$ 1,625,183	$ 38,172,915	$ 1,680,678
Bond premium/discount	36,182	-	2,404	33,778	-
Note payable	675,000	-	150,000	525,000	150,000
Capital lease obligations	467,073	-	144,850	322,223	147,277
Total bonds, note and capital leases	40,976,353	-	1,922,437	39,053,916	1,977,955
Other long-term liabilities:					
Advances from federal sponsors	498,861	-	95,443	403,418	-
Compensated absences	1,189,526	115,110	152,296	1,152,340	737,330
Other postemployment benefits liability	11,130,356		2,123,536	9,006,820	-
Total other long-term liabilities	12,818,743	115,110	2,371,275	10,562,578	737,330
Total long-term liabilities	$ 53,795,096	$ 115,110	$ 4,293,712	$ 49,616,494	$ 2,715,285

	2017				
	Beginning Balance	**Additions**	**Reductions**	**Ending Balance**	**Current Portion**
Bonds, note and capital leases:					
Bonds payable	$ 40,520,000	$ 35,282,000	$ 36,003,902	$ 39,798,098	$ 1,625,183
Bond premium/discount	485,925	85,480	535,223	36,182	-
Note payable	-	750,000	75,000	675,000	150,000
Capital lease obligations	609,535	-	142,462	467,073	144,850
Total bonds, note and capital leases	41,615,460	36,117,480	36,756,587	40,976,353	1,920,033
Other long-term liabilities:					
Advances from federal sponsors	509,471	-	10,610	498,861	-
Compensated absences	1,209,629	131,699	151,802	1,189,526	782,163
Other postemployment benefits liability	10,824,012	306,344	-	11,130,356	-
Total other long-term liabilities	12,543,112	438,043	162,412	12,818,743	782,163
Total long-term liabilities	$ 54,158,572	$ 36,555,523	$ 36,918,999	$ 53,795,096	$ 2,702,196

7. CAPITAL LEASE AND NOTE PAYABLE

The University has a capital lease for one of its athletic fields that holds an interest rate of 1.67% and will mature in August 2020. In September 2016, the University received an interest free loan from the West Virginia Higher Education Policy Commission in the amount of $750,000 for the demolition of the Sara Cree building. This loan is to be paid back in semi-annual payments of $75,000 for the next 5 years.

Future annual payments on capital lease and note payable for years subsequent to June 30, 2018, are as follows:

Years Ending June 30,	Principal	Interest	Total
2019	297,277	4,240	301,517
2020	299,746	1,772	301,518
2021	175,200	52	175,252
2022	75,000	-	75,000
Total	$ 847,223	$ 6,064	$ 853,287

The net book value of capital assets held under the capital lease as of June 30, 2018 and 2017, was $923,463 and $1,045,158, net of accumulated depreciation of $901,953 and $780,258, respectively.

8. BONDS PAYABLE

Bonds payable as of June 30, 2018 and 2017, consisted of the following:

	Interest Rate	Annual Principal Installment Due	Principal Amount Outstanding 2018	Principal Amount Outstanding 2017
Refunding Revenue Bonds, due through 2033	2.10% - 4.375%	$400,000-460,000	5,065,000	5,455,000
Refunding Revenue Bonds, due through 2037	3.65%	$1,280,678-2,367,878	33,107,915	34,343,098
			38,172,915	39,798,098
Premium			33,978	36,182
			$ 38,206,893	$ 39,834,280

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

8. **BONDS PAYABLE** (CONTINUED)

Residence Facilities Revenue Bonds — In May 2005, $22,925,000 of revenue bonds (Shepherd University Residence Facilities Projects (the "Project")) Series 2005 (the "Bonds") were sold. The Bonds were issued under the authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended and the Bonds are secured pursuant to the Indenture and Security Agreement dated as of May 24, 2005, by and between the Board and the trustee. The Bonds were issued to finance the costs of planning, design, acquisition, construction, and equipping of a 300-bed apartment style residence complex on the West Campus of the University; fund capitalized interest on the Series 2005 Bonds to January 1, 2007; refund the Issuer's $1,865,000 University Facilities Revenue Notes, Series 2004A, which were issued to finance temporarily a portion of the costs of planning, design, acquisition, construction, and equipping of certain renovations and improvements to Shaw Hall, Thacher Hall, and other capital renovations and improvements to the University's residence facilities pending issuance of the Series 2005 Bonds; pay the costs of issuance of the Series 2005 Bonds.

The Bonds maturing on and after June 1, 2017, are subject to redemption prior to maturity, at the option of the Board, in whole at any time or in part on any interest payment date, at par, plus accrued interest to the date fixed for redemption.

Beginning in the Fall 2006 semester, rental fees from the new facilities are used to operate the facility and with other sources of revenues identified in the pledge, pay debt service. Fees shall at all times be sufficient to provide pledged revenues each fiscal year. The fees shall at all times be sufficient to provide pledged revenues, when combined with other monies legally available to be used for such purpose, each fiscal year equal to at least 100% of maximum annual debt service. During the years ended June 30, 2018 and 2017, net revenues when combined with other monies legally available for payment of debt service were in excess of the maximum annual debt service.

Wellness Center Revenue Bonds — In October 2007, $20,090,000 of revenue bonds (Shepherd University Wellness Center Projects (the "Project") Series 2007 (the "Bonds") were sold. The Bonds were issued under the authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended and the Bonds are secured pursuant to the Indenture and Security Agreement dated as of October 30, 2007, by and between the Board and the Trustee. The Bonds were issued to finance the costs of planning, design, acquisition, construction, and equipping of a new wellness center on the University's campus and other capital improvements for use by the University.

The Bonds maturing on and after June 1, 2022, are subject to redemption prior to maturity on or after December 1, 2017, at the option of the Board, in whole at any time or in part on any interest payment date, at par, plus accrued interest to the date fixed for redemption.

Beginning in the Fall 2008 semester, student fees and revenues collected from the new facilities are used to operate the facility, and with other sources of revenues identified in the pledge, pay debt service. Gross operating revenues shall at all times be sufficient to provide pledged revenues each fiscal year. The fees shall at all times be sufficient to provide pledged revenues, when combined with other monies legally available to be used for such purpose, each fiscal year equal to at least 100% of maximum annual debt service. During the years ended June 30, 2018 and 2017, gross revenues when combined with other monies legally available for payment of debt service were in excess of the maximum annual debt service.

8. **BONDS PAYABLE** (CONTINUED)

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

On March 8, 2017, the University issued $35.3 million in General Obligation Bonds with a fixed interest rate of 3.65% to advance refund $35.3 million of outstanding 2005 and 2007 revenue bonds with an average interest rate of 4.5% and to pay the cost of issuance. As a result, both 2005 and 2007 revenue bonds are considered to be defeased and the liability for both of those bonds has been removed from the state of net position.

The advance refunding resulted in a net gain between the reacquisition price and the net carrying amount of old debt of $82,013. The difference was charged to operations during 2017. The University completed the refunding to reduce its total debt service payments over the next 20 years by $4.2 million and to obtain an economic gain (difference between the present value of the old and new debt service payments) of $3.3 million.

Summary of the annual aggregate principal and interest payments for years subsequent to June 30, 2018, are as follows:

Years Ending	2013		2017		Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest
2019	$ 400,000	$ 174,262	$ 1,280,678	$ 1,293,993	1,680,678	1,468,255
2020	410,000	165,862	1,324,732	1,245,898	1,734,732	1,411,760
2021	420,000	153,563	1,376,643	1,189,788	1,796,643	1,343,351
2022	435,000	140,962	1,427,349	1,134,729	1,862,349	1,275,691
2023	445,000	127,913	1,479,923	993,161	1,924,923	1,121,074
2024-2028	1,465,000	462,606	8,253,719	4,109,096	9,718,719	4,571,702
2029-2033	1,490,000	197,863	9,893,609	2,464,205	11,383,609	2,662,068
2034-2037	-	-	8,071,262	616,196	8,071,262	616,196
Total	$ 5,065,000	$ 1,423,031	$ 33,107,915	$ 13,047,066	$ 38,172,915	$ 14,470,097

9. OTHER POSTEMPLOYMENT BENEFITS

Employees of the University are enrolled in the West Virginia Other Postemployment Benefit Plan (the "OPEB plan") which is administered by the West Virginia Public Employees Insurance Agency ("PEIA") and the West Virginia Retiree Health Benefit Trust Fund (the "RHBT").

Following is the University's other postemployment benefits liability, deferred outflows of resources and deferred inflows of resources related to other postemployment benefits, revenues, and other postemployment benefits expense and expenditures for the fiscal year ended June 30, 2018 (dollars in thousands):

		2018
Net OPEB Liability	$	9,006,820
Deferred Outflows of Resources	$	798,039
Deferred Inflows of Resources	$	1,598,082
Revenues	$	567,909
Expenses	$	453,652
Contributions Made by University	$	798,039

Plan Description

The OPEB plan is a cost-sharing, multiple employer, defined benefit other post-employment benefit plan that covers the retirees of State agencies, colleges and universities, county boards of education, and other government entities as set forth in West Virginia Code Section 5-16D-2 (the "Code"). Plan benefits are established and revised by PEIA and the RHBT with approval of the Finance Board. The Finance Board is comprised of nine members. Finance Board members are appointed by the Governor, serve a term of four years and are eligible for reappointment. The State Department of Administration secretary serves as Chairman of the Board. Four members represent labor, education, public employees and public retirees. Four remaining members represent the public-at-large.

Active employees who retire are eligible for PEIA health and life benefits, provided they meet the minimum eligibility requirements of the applicable State retirement system and if their last employer immediately prior to retirement: is a participating employer under the Consolidated Public Retirement Board ("CPRB") and, as of July 1, 2008 forward, is a participating employer with PEIA. Active employees who, as of July 1, 2008, have ten years or more of credited service in the CPRB and whose employer at the time of their retirement does participate with CPRB, but does not participate with PEIA will be eligible for PEIA retiree coverage provided: they otherwise meet all criteria under this heading and their employer agrees, in writing, upon a form prescribed by PEIA, that the employer will pay to PEIA the non-participating retiree premium on behalf of the retiree or retirees, or that the retiree agrees to pay the entire unsubsidized premium themselves. Employees who participate in non-State retirement systems but that are CPRB system affiliated, contracted, or approved (such as TIAA-CREF and Empower Retirement), or are approved, in writing, by the PEIA Director must, in the case of education employees, meet the minimum eligibility requirements of the State Teachers Retirement System ("STRS"), and in all other cases meet the minimum eligibility requirements of the Public Employees Retirement System to be eligible for PEIA benefits as a retiree.

The financial activities of the OPEB plan are accounted for in the RHBT, a fiduciary fund of the State of West Virginia. The RHBT audited financial statements and actuarial reports can be found on the PEIA website at www.peia.wv.gov.

9. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Benefits Provided

The OPEB plan provides the following benefits: medical and prescription drug insurance and life insurance. The medical and prescription drug insurance is provided through two options: the self-insured preferred provider benefit plan option, which is primarily for non-Medicare-eligible retirees and spouses; and the external managed care organization option, which is primarily for Medicare-eligible retirees and spouses.

Contributions

Pay as you go premiums ("paygo") are established by the Finance Board annually. All participating employers are required by statute to contribute this premium to the RHBT at the established rate for every active policyholder per month. The active premiums subsidize the retirees' health care.

Members retired before July 1, 1997 pay retiree healthcare contributions at the highest sponsor subsidized rate, regardless of their actual years of service. Members retired between July 1, 1997 and June 30, 2010; pay a subsidized rate depending on the member's years of service. Members hired on or after July 1, 2010, pay retiree healthcare contributions with no sponsor provided implicit or explicit subsidy.

Retiree leave conversion contributions from the employer depend on the retiree's date of hire and years of service at retirement as described below:

- Members hired before July 1, 1988 may convert accrued sick or vacation leave days into 100% of the required retiree healthcare contribution.

- Members hired from July 1, 1988 to June 30, 2001 may convert sick or vacation leave days into 50% of the required retiree healthcare contribution.

The conversion rate is two days of unused sick and vacation leave days for one month of single healthcare coverage and three days of unused sick and vacation leave days for one month of family healthcare coverage.

Employees hired on or after July 1, 2001 no longer receive sick and/or vacation leave credit toward the required retiree healthcare contribution when they retire. All retirees have the option to purchase continued coverage regardless of their eligibility for premium credits.

Certain faculty employees (generally those with less than a 12-month contract) earn a similar extended health or life insurance coverage retirement benefit based on years of service. Generally, 3-1/3 years of teaching service extend health insurance coverage for one year of family coverage. Faculty hired after July 1, 2009 no longer receives years of service credit toward insurance premiums when they retire. Faculty hired on or after July 1, 2010 receives no health insurance premium subsidy when they retire. Two groups of employees hired after July 1, 2010 will not be required to pay the unsubsidized rate: 1) active employees who were originally hired before July 1, 2010 who have a break in service of fewer than two years after July 1, 2010; and 2) retired employees who had an original hire date prior to July 1, 2010 may return to active employment. In those cases, the original hire date may apply.

9. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Assumptions

The net OPEB liability for financial reporting purposes was determined by an actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017. The following actuarial assumptions were used and applied to all periods included in the measurement:

- Actuarial cost method: Entry age normal cost method.
- Amortization method and period: Level percentage of payroll over 21 years; closed as of June 30, 2016.
- Investment rate of return: 7.15%, net of OPEB plan investment expense, including inflation.
- Projected salary increases: dependent on pension system ranging from 3.00% to 6.50%, including inflation.
- Healthcare cost trend rates: Actual trend used for fiscal year 2017. For fiscal years on and after 2018, trend starts at 8.50% and 9.75% for pre- and post-Medicare, respectively, and gradually decreases to an ultimate trend of 4.50%. Excess trend rate of 0.14% and 0.29% for pre- and post-Medicare, respectively, is added to healthcare trend rates pertaining to per capita claims costs beginning in 2020 to account for the Excise Tax.
- Inflation rate: 2.75%.
- Discount rate: 7.15%
- Mortality rates: based on RP-2000 Mortality Tables.

The long-term investment rate of return of 7.15% on OPEB plan investments was determined by a combination of an expected long-term rate of return of 7.50% for long-term assets invested with the West Virginia Investment Management Board ("IMB") and an expected short-term rate of return of 3.0% for assets invested with the WV Board of Treasury Investments ("BTI").

Long-term pre-funding assets are invested with the IMB. The strategic asset allocation consists of 55% equity, 15% fixed income, 10% private equity, 10% hedge fund and 10% real estate invested. Short-term assets used to pay current year benefits and expenses are invested with the BTI.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which estimates of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentages and by adding expected inflation. Best estimates of the long-term geometric rates for each major asset class are summarized below.

9. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010 through June 30, 2015.

Asset Class	Long-term Expected Real Rate of Return
Large Cap Domestic	17.0%
Non-Large Cap Domestic	22.0%
International Qualified	24.6%
International Non-Qualified	24.3%
International Equity	26.2%
Short-Term Fixed	0.5%
Total Return Fixed Income	6.7%
Core Fixed Income	0.1%
Hedge Fund	5.7%
Private Equity	19.6%
Real Estate	8.3%
Opportunistic Income	4.8%
Cash	0.0%

Discount rate. The discount rate used to measure the OPEB liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that RHBT contributions will be made at rates equal to the actuarially determined contribution rates, in accordance with prefunding and investment policies. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. Discount rates are subject to change between measurement dates.

Sensitivity of the net pension liability to changes in the discount rate. The following presents the University's proportionate share of the net OPEB liability as of June 30, 2016 calculated using the discount rate of 7.15%, as well as what the University's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.15%) or one percentage point higher (8.15%) than the current rate (dollars in thousands):

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% increase (8.15%)
Net OPEB Liability	$ 10,487,408	$ 9,006,820	$ 7,776,038

9. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Sensitivity of the net OPEB liability to changes in healthcare cost trend rates. The following presents the University's proportionate share of the net OPEB liability as of June 30, 2016 calculated using the current healthcare cost trend rates, as well as what the University's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current rates (dollars in thousands):

	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Net OPEB Liability	$ 7,565,857	$ 9,006,820	$ 10,769,198

OPEB Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability at June 30, 2018 was measured as of June 30, 2016 and rolled forward to June 30, 2017, which is the measurement date. The total OPEB liability at June 30, 2018 was determined by an actuarial valuation as of June 30, 2016 and rolled forward to the measurement date.

At June 30, 2018, the amount recognized as the University's proportionate share of the net OPEB liability was approximately $9,006,820. At June 30, 2018, the nonemployer contributing entity's (State of West Virginia) portion of the collective net OPEB liability is $1,850,010 and the total net OPEB liability attributable to the University is $10,856,830.

The allocation percentage assigned to each contributing employer is based on the employer's proportionate share of employer contributions to the RHBT for the fiscal years ended June 30, 2017 and June 30, 2016. Employer contributions are recognized when due. At June 30, 2017, the University's proportion was .366281428%, a decrease of .072791% from its proportion of .439072004% calculated as of June 30, 2016.

For the year ended June 30, 2018, the University recognized OPEB expense of $1,021,561. Of this amount, $453,652 was recognized as the University's proportionate share of the OPEB expense, and $567,909 as the amount of OPEB expense attributed to special funding. The University also recognized revenue of $567,909 for support provided by the State.

At June 30, 2018, deferred outflows of resources and deferred inflows of resources related to OPEB are as follows (dollars in thousands):

	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Changes in proportion and difference between employer contributions and proportionate share of contributions	$ -	$ 1,424,168
Net difference between projected and actual investment earnings	-	143,755
Differences between expected and actual experience	-	30,159
Contributions after the measurement date	798,039	-
Total	$ 798,039	$ 1,598,082

9. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The University will recognize the $798,039 reported as deferred outflows of resources resulting from OPEB contributions after the measurement date as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (dollars in thousands):

Fiscal Year Ended	Amortization
June 30, 2019	$ 427,518
June 30, 2020	427,518
June 30, 2021	427,518
June 30, 2022	315,528
	$ 1,598,082

10. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

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

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

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

Debt service assessed for the years ending June 30, 2018 and 2017 are as follows:

	2018	2017
Other	$ 18,303	$ 18,520

11. UNRESTRICTED COMPONENTS OF NET POSITION

The University did not have any board designated unrestricted components of net position as of June 30, 2018 or 2017.

	2018	2017
Total unrestricted net position before OPEB and net pension liability	$ 5,380,972	$ 9,290,199
Less Net pension liability	(266,966)	(391,112)
Less OPEB liability	(9,006,820)	(11,130,356)
Total unrestricted component of net position	$ (3,892,814)	$ (2,231,269)

12. DEFINED CONTRIBUTION PLANS

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

Effective January 1, 2003, higher education employees enrolled in the basic 401(a) retirement plan with TIAA-CREF have an option to switch to the Great West basic retirement plan. New hires have the choice of either plan. As of June 30, 2018 and 2017, only one employee has elected this plan.

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

12. DEFINED CONTRIBUTION PLANS (CONTINUED)

The total contributions that the University was required to contribute to the TIAA-CREF for the years ended June 30, 2018, 2017, and 2016, were $2,120,386, $2,622,058, and $2,505,942, respectively, which consisted of approximately equal contributions from the University and covered employees in 2018, 2017, and 2016 of $1,063,404, $1,312,206, and $1,252,971, respectively.

The total contributions that the University was required to contribute to the Great West for the years ended June 30, 2018, 2017, and 2016, were $81,847, $96,788, and $117,204, respectively, which consisted of equal contributions from the University and the covered employee in 2018, 2017, and 2016 of $41,241, $48,394, and $58,602, respectively.

The University's total payroll for the years ended June 30, 2018 and 2017 was $26,695,420 and $27,063,149, respectively, and total covered employees' salaries in TIAA-CREF and Great West were, $17,723,397 and $687,347 in 2018, and $21,870,099 and $806,569 in 2017, respectively.

13. DEFINED BENEFIT PENSION PLAN

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

Following is the University's pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, revenues, and the pension expense and expenditures for the fiscal years ended June 30, 2018 and 2017:

	2018	2017
Net Pension Liability	$ 266,966	$ 391,112
Deferred Outflows of Resources	$ 49,257	$ 87,680
Deferred Inflows of Resources	$ 200,261	$ 195,219
Revenues	$ 60,136	$ 69,507
Pension Expense	$ (45,467)	$ (28,111)
Contributions Made by Shepherd	$ 35,214	$ 34,322

TRS

Plan Description

TRS is a multiple employer defined benefit cost sharing public employee retirement system providing retirement benefits as well as death and disability benefits. It covers all full-time employees of the 55 county public school systems in the State of West Virginia (the State) and certain personnel of the 13 State-supported institutions of higher education, State Department of Education and the Higher Education Policy Commission hired prior to July 1, 1991. Employees of the State-supported institutions of higher education and the Higher Education Policy Commission hired after June 30, 1991, are required to participate in the Higher Education Retirement System. TRS closed membership to new hires effective July 1, 1991.

TRS is considered a component unit of the State of West Virginia for financial reporting purposes, and, as such, its financial report is also included in the State of West Virginia's Comprehensive Annual Financial Report. TRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained from the TRS website at
https://www.wvretirement.com/Publications.html#CAFR

Benefits Provided

TRS provides retirement, death, and disability benefits. A member is eligible for normal retirement at age 60 with five years of service, age 55 with 30 years of service or any age with 35 years of service. A member may retire with 30 years of credited service at any age with the pension reduced actuarially if the member retires before age 55. Terminated members with at least five, but less than 20, years of credited service who do not withdraw their accumulated contributions are entitled to a deferred retirement commencing at age 62. Retirement benefits are equivalent to 2% of average annual salary multiplied by years of service. Average salary is the average of the 5 highest fiscal years of earnings during the last 15 fiscal years of earnings. Chapter 18, Article 7A of the West Virginia State Code

assigns the authority to establish and amend the provisions of the plan, including contribution rates, to the State Legislature.

13. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Contributions

The funding objective of the CPRB pension trust funds is to meet long-term benefit requirements through contributions, which remain relatively level as a percent of member payroll over time, and through investment earnings. Contribution requirements are set by CPRB. A member who withdraws from service for any cause other than death or retirement may request that the accumulated employee contributions plus interest be refunded.

Member Contributions: TRS funding policy provides for member contributions based on 6% of members' gross salary. Contributions as a percentage of payroll for members and employers are established by State law and are not actuarially determined.

Employer Contributions: Employers make the following contributions:

The State (including institutions of higher education) contributes:

1. 15% of gross salary of their State-employed members hired prior to July 1, 1991;
2. 15% of School Aid Formula (SAF) covered payroll of county-employed members;
3. 7.5% of SAF-covered payroll of members of the TDCRS;
4. a certain percentage of fire insurance premiums paid by State residents; and
5. under WV State code section 18-9-A-6a, beginning in fiscal year 1996, an amount determined by the State Actuary as being needed to eliminate the TRS unfunded liability within 40 years of June 30, 1994. The University's proportionate share attributable to this special funding subsidy was $57,241 and $66,128 as of June 30, 2018 and 2017, respectively.

The University's contributions to TRS for the years ended June 30, 2018, 2017, and 2016, were approximately $35,214, $34,322, and $35,215, respectively.

Assumptions

The total pension liabilities for financial reporting purposes were determined by actuarial valuations as of June 30, 2016 and rolled forward to June 30, 2017. The following actuarial assumptions were used and applied to all periods included in the measurement:

- Actuarial cost method: Entry age normal cost with level percentage of payroll.
- Asset valuation method: 4-year 25% level smoothing of actuarial gain or (loss) on trust fund return
- Amortization method and period: Level dollar, fixed period over 40 years, from July 1, 1994 through fiscal year 2034.
- Investment rate of return of 7.50%, net of pension plan administrative and investment expenses.
- Projected salary increases: Teachers 3.00–6.00% and non-teachers 3.00–6.50%, based on age.
- Inflation rate of 3.0%.
- Discount rate of 7.50%
- Mortality rates based on RP-2000 Non-Annuitant Tables.
- Withdrawal rates: Teachers 0.8-35.0% and non-teachers 1.316-24.75%.
- Disability rates: 0.006-0.704%
- Retirement age: An age-related assumption is used for participants not yet receiving payments.

13. DEFINED BENEFIT PENSION PLAN (CONTINUED)

- Retirement rates: 15-100%
- *Ad hoc* cost-of-living increases in pensions are periodically granted by the State Legislature. However, the retirement system makes no automatic provision for such increases.

Experience studies are performed at least once in every five-year period. The most recent experience study covered the period from July 1, 2005 to June 30, 2010. These assumptions will remain in effect for valuation purposes until such time as the CPRB adopts revised assumptions.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the long-term arithmetic real rates of return for each major asset class included in TRS' target asset allocation as of June 30, 2017, are summarized below.

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
US Equity	7.0%	27.5%
International Equity	7.7%	27.5%
Core Fixed Income	2.7%	7.5%
High Yield Fixed Income	5.5%	7.5%
TIPS	2.7%	0.0%
Real Estate	7.0%	10.0%
Private Equity	9.4%	10.0%
Hedge Funds	4.7%	10.0%

Discount rate. The discount rate used to measure the total TRS pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that State contributions will continue to follow the current funding policy. Based on those assumptions, TRS fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on TRS' investments was applied to all periods of projected benefit payments to determine the total pension liability. In the event of benefit payments that are not covered by the pension plan's fiduciary net position, a municipal bond rate of 3.66% is to be used to discount the benefit payments not covered by the plan's fiduciary net position. The rate equals the S&P Municipal Bond 20 Year High Grade Rate Index at June 30, 2017.

Sensitivity of the net pension liability to changes in the discount rate. The following presents the University's proportionate share of the TRS net pension liability as of June 30, 2018 and 2017 calculated using the discount rate of 7.50%, as well as what the University's TRS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate (dollars in thousands).

13. DEFINED BENEFIT PENSION PLAN (CONTINUED)

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability as of June 30, 2018	$ 351,472	$ 266,966	$ 194,761
Net Pension Liability as of June 30, 2017	$ 494,764	$ 391,112	$ 302,477

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. The TRS net pension liability was measured as of June 30, 2017 and 2016. The total pension liability was determined by an actuarial valuation as of June 30, 2016 and rolled forward to the measurement date June 30, 2017.

The University's proportionate share of the TRS net pension liability as of June 30, 2018 and 2017 are as follows:

	2018	**2017**
Recognized University Net Pension Liability	$ 266,966	$ 391,112
University's proportionate share of net pension liability due to special funding situation	590,374	744,964
Total University Proportionate Share of TRS Net Pension Liability	$ 857,340	$ 1,136,076

The allocation percentage assigned to each participating employer and non-employer contributing entity is based on their proportionate share of employer and non-employer contributions to TRS for each of the fiscal years ended June 30, 2017 and 2016. Employer contributions are recognized when due. At June 30, 2017 and 2016, the University's proportion was 0.007727% and 0.009516%, respectively.

The University recognized TRS pension expense for the years ended June 30, 2018 and 2017 as follows:

	2018	**2017**
University's porportionate share of TRS expense	$ (102,708)	$ (94,239)
Pension expense attributable to special funding from a non-employer contributing entity	57,241	66,128
Total TRS pension expense	$ (45,467)	$ (28,111)

The University also recognized revenue of $60,136 and $69,507 for support provided by the State for years ended June 30, 2018 and 2017, respectively.

13. DEFINED BENEFIT PENSION PLAN (CONTINUED)

At June 30, 2018, deferred outflows of resources and deferred inflows of resources related to the TRS pension are as follows:

	2018	2017
Deferred Outflows of Resources		
Differences between expected and Actual Experience	$ 2,321	$ -
Changes in Proportion and difference between employer contributions and proportinate share of contributions	1,693	53,358
Changes in assumptions	10,029	-
Contributions after the measurment date	35,214	34,322
Total Deferred Outflows of Resources	$ 49,257	$ 87,680
Deferred Inflows of Resources		
Changes in Proportion and difference between employer contributions and proportinate share of contributions	$ 187,115	$ 179,242
Net difference between projected and actual investment earnings	8,391	13,693
Differences between expected and actual experience	4,755	2,284
Total Deferred Inflows of Resources	$ 200,261	$ 195,219

The University will recognize the 2018 pension contributions of $35,214 as a reduction of the TRS net pension liability in the year ended June 30, 2018. Other 2018 amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in TRS pension expense as follows:

Fiscal Year Ended	Amortization
June 30, 2019	$ (73,000)
June 30, 2020	(58,548)
June 30, 2021	(25,932)
June 30, 2022	(17,037)
June 30, 2023	(11,701)
	$ (186,218)

Payables to the pension plan

The University did not report any amounts payable for normal contributions to the TRS as of June 30, 2018 and 2017.

14. FOUNDATION

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

Based on the Foundation's audited financial statements as of June 30, 2018 and 2017, the Foundation's net assets (including unrealized gains) totaled $28,460,540 and $28,421,069, respectively. Complete financial statements of the Foundation can be obtained from The Shepherd University Foundation, Incorporated, P.O. Box 3210, Shepherdstown, West Virginia 25443-3210.

During the years ended June 30, 2018 and 2017, the Foundation contributed $1,646,489 and $1,442,908, respectively, to the University for scholarships and awards.

15. AFFILIATED ORGANIZATION

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

16. COMMITMENTS AND CONTINGENCIES

Leases

The University executed an operating lease agreement for the Martinsburg Center campus at 261 Aikens Center, Martinsburg, West Virginia in 2014. The lease agreement includes scheduled rent increases over the term of the lease, which will be recognized on a straight-line basis over the term of the lease. The lease expires June 2023. Rental expense under the operating lease was $118,405 and $239,577 for the years ended June 30, 2018 and 2017, respectively. The rent expense is included in supplies and other services (Instruction) in the accompanying statements of revenues, expenses, and changes in net position. Starting July 2017, the University will be reducing the amount of square footage they will be leasing at the Martinsburg Center from 15,811 square feet to 7,346, thus causing future rent expense to be reduced.

16. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Future minimum payments under non-cancellable operating leases are as follows at June 30:

	Leases
2019	$ 114,699
2020	118,140
2021	121,684
2022	125,335
2023	129,095
Total minimum lease payments	$ 608,953

Claims

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

Federal Contracts

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

Arbitrage

The Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates. There are no arbitrage rebate liabilities as of June 30, 2018 or 2017.

Building Codes

The University owns various buildings that are known to contain asbestos. The University is not required by federal, state, or local law to remove the asbestos from its buildings. The University is required under federal environmental, health, and safety regulations to manage the presence of asbestos in its buildings in a safe condition. The University addresses its responsibility to manage the presence of asbestos in its buildings on a case-by-case basis. Significant problems of dangerous asbestos conditions are abated as the condition becomes known. The University also addresses the presence of asbestos as building renovation or demolition projects are undertaken and through asbestos operation and maintenance programs directed at containing, managing, or operating with the asbestos in a safe condition.

16. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Risk Management

The University is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The University carries commercial insurance to insure against major loss related to these risks. The University also carries commercial insurance for employee health, long-term disability, life, and workers compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage. There have been no significant reductions in insurance coverage or any settled claims that have exceeded the amount of the coverage in any of the past three years.

17. POTOMAC PLACE

Completion of the Potomac Place residence hall occurred in July, 2017 and became available for student housing in the Fall Semester of 2017. This 300-bed student housing facility, including the buildings, furniture, fixtures, machinery and equipment and related facilities is subject to a Ground Lease Agreement between the University and the Shepherd University Foundation Supporting Organization (SUFSO), where the University is the "Lessor" and the SUFSO is the "Lessee" and a Management Agreement exists between the two entities with the University fulfilling the duties of the "Manager" and the SUFSO.

The Ground Lease Agreement will expire upon the repayment of all associated outstanding debt borrowed by the Supporting Organization, scheduled for full repayment in approximately forty (40) years. Upon the expiration of the lease, the building and associated equipment and furnishings will be transferred to Shepherd University. The ground lease agreement requires annual rental payments due 30 days after the receipt of the audited financial statements of the SUFSO, beginning in June, 2018.

In the Management Agreement, the SUFSO appoints the University as its exclusive agent for the construction, operation, management and maintenance of the Project and the University accepts the appointment, subject to the terms and conditions set forth in this Agreement. The University agrees to comply with the terms and conditions of the Ground Lease; and the University agrees to use its commercially reasonable efforts to manage the Project in accordance with the provisions of the Ground Lease applicable to the operation, use, management, repair, and modification of the Project.

18. SEGMENT INFORMATION

Condensed statements of net position as of June 30, 2018 and 2017:

	Refunding Revenue Bonds 2013		Refunding Revenue Bonds 2017	
	2018	**2017**	**2018**	**2017**
Assets:				
Current assets	4,049,283	3,151,934	7,103,646	10,382,390
Noncurrent assets	7,345,410	7,190,214	37,556,789	36,430,690
Total assets	11,394,693	10,342,148	44,660,435	46,813,080
Liabilities:				
Current liabilities	493,006	852,143	2,422,978	1,851,295
Noncurrent liabilities	4,698,978	5,101,182	31,827,237	33,107,916
Total liabilities	5,191,984	5,953,325	34,250,215	34,959,211
Net position:				
Net investment in capital assets	2,246,430	1,699,030	4,429,215	2,064,547
Restricted:				
Unrestricted	3,956,279	2,689,793	5,981,005	9,789,322
Total net position	6,202,709	4,388,823	10,410,220	11,853,869
Total net position and liabilities	11,394,693	10,342,148	44,660,435	46,813,080

Condensed statements of revenues, expenses, and changes in net position for the years ended June 30, 2018 and 2017:

	Refunding Revenue Bonds 2013		Refunding Revenue Bonds 2017	
	2018	2017	2018	2017
Operating:				
Operating revenues	$ 2,473,982	$ 2,580,379	$ 14,029,739	$ 4,077,511
Operating expenses	(642,423)	(637,379)	(14,416,284)	(3,608,594)
Net operating income	1,831,559	1,943,000	(386,545)	468,917
Nonoperating:				
Nonoperating revenues	184,594	119,136	183,108	11,856,504
Nonoperating expenses	(202,267)	(214,808)	(1,240,212)	(471,552)
Net nonoperating loss	(17,673)	(95,672)	(1,057,104)	11,384,952
Increase (decrease) in net assets	1,813,886	1,847,328	(1,443,649)	11,853,869
Net position — beginning of year	4,388,823	2,541,495	11,853,869	-
Net position — end of year	$ 6,202,709	$ 4,388,823	$ 10,410,220	$ 11,853,869

Condensed statements of cash flows for the years ended June 30, 2018 and 2017:

	Refunding Revenue Bonds 2013		Refunding Revenue Bonds 2013	
	2018	2017	2018	2017
Net cash provided by (used in) operating activities	$ 1,867,923	$ 2,337,895	$ 1,098,289	$ 769,162
Net cash used in capital and related financing	(960,704)	(1,356,177)	(3,902,541)	8,900,772
Net cash provided by (used in) \investing activities	-	-	-	-
Increase (decrease) in cash and cash equivalents	907,219	981,718	(2,804,252)	9,669,934
Cash and cash equivalents — beginning of year	2,881,195	1,899,477	9,669,934	-
Cash and cash equivalents — end of year	$ 3,788,414	$ 2,881,195	$ 6,865,682	$ 9,669,934

19. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2018 and 2017, the following represents operating expenses within both natural and functional classifications:

2018	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Fees Assessed by the Commission	Total
Instruction	$ 13,461,874	$ 2,557,802	$ 1,659,687	$ 4,473	$ -	$ -	$ -	$ 17,683,836
Research	158,624	18,100	75,725	-	-	-	-	252,449
Public service	130,513	19,645	46,208		-	-	-	196,366
Academic support	1,805,006	303,144	909,276	1,163	-	-	-	3,018,589
Student services	2,180,238	434,096	773,522	788	-	-	-	3,388,644
General institutional support	3,024,815	1,668,293	2,261,342	331	-	-	-	6,954,781
Operations and maintenance of plant	1,544,846	354,751	1,488,590	1,914,784	-	-	-	5,302,971
Student financial aid	-	-	-	-	2,236,855	-	-	2,236,855
Auxiliary enterprises	4,389,504	852,059	5,614,184	1,632,011	-	-	-	12,487,758
Depreciation	-	-	-	-	-	6,628,656	-	6,628,656
Other	-	-	-	-	-	-	242,126	242,126
Total	$ 26,695,420	$ 6,207,890	$ 12,828,534	$ 3,553,550	$ 2,236,855	$ 6,628,656	$ 242,126	$ 58,393,031

2017	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Fees Assessed by the Commission	Total
Instruction	$ 13,297,675	$ 2,791,375	$ 1,779,090	$ 4,678	$ -	$ -	$ -	$ 17,872,818
Research	155,973	17,055	54,825	-	-	-	-	227,853
Public service	149,035	27,063	68,235		-	-	-	244,333
Academic support	1,981,476	393,871	850,643	495	-	-	-	3,226,485
Student services	2,212,557	526,498	747,064	1,240	-	-	-	3,487,359
General institutional support	3,224,702	1,218,830	2,224,556	203	-	-	-	6,668,291
Operations and maintenance of plant	1,539,158	423,118	868,363	2,021,325	-	-	-	4,851,964
Student financial aid	-	-	-	-	2,164,214	-	-	2,164,214
Auxiliary enterprises	4,502,573	1,067,031	5,657,888	1,484,014	-	-	-	12,711,506
Depreciation	-	-	-	-	-	6,718,282	-	6,718,282
Other	-	-	-	-	-	-	259,299	259,299
Total	$ 27,063,149	$ 6,464,841	$ 12,250,664	$ 3,511,955	$ 2,164,214	$ 6,718,282	$ 259,299	$ 58,432,404

20. COMPONENT UNIT'S DISCLOSURES

The notes taken directly from the audited financial statements of the Foundation are as follows:

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Principles

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

Organization and Nature of Operations

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

Basis of Accounting

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

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

Unrestricted Net Assets

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

Temporarily Restricted Net Assets

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

Permanently Restricted Net Assets

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

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

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

Investments

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

Pledges Receivable

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

Dormitory Revenue, Accounts Receivable and Deferred Revenues

Revenues related to the operation of the dormitory are recognized in the period the related housing and services are provided. To the extent applicable, deferred revenue is recognized for any advanced payments received from students and others prior to the period of the rental. Accounts receivable primarily represents amounts due for dormitory rentals that occurred prior to the financial statement date. Management determines an allowance for doubtful accounts by regularly evaluating the individual receivables and considering the student's financial condition and payment history.

Receivables are written off when deemed uncollectible. As of June 30, 2018 and 2017, management feels all receivables will be collected and therefore, has not established an allowance for doubtful accounts.

Property and Equipment

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

	Years
Office equipment	3-7
Dormitory building and improvements	40
Dormitory furniture and fixtures	5

Loan Origination Costs

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

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

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

Advertising

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

Contributions

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

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

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

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

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

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

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

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

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

Risks

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

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

Recent Accounting Pronouncement ASU 2015-07

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

Reclassifications

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

NOTE 2 RESTRICTED CASH AND CASH EQUIVALENTS

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

NOTE 2 RESTRICTED CASH AND CASH EQUIVALENTS (CONTINUED)

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

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

NOTE 3 PLEDGES RECEIVABLE

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

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

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

NOTE 4 INVESTMENTS

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

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

Description	Cost	Market
2018		
Certificates of deposit	$ 684,628	$ 684,628
Government securities	1,319,757	1,291,923
Corporate bonds and notes	1,487,575	1,424,281
Mutual funds	15,397,813	18,064,962
Stocks	1,465,935	1,984,237
Investment Securities	$ 20,355,708	$ 23,450,031
2017		
Certificates of deposit	$ 681,356	$ 681,356
Government securities	1,162,828	1,155,049
Corporate bonds and notes	1,080,102	1,079,045
Mutual funds	15,840,529	17,913,439
Stocks	1,698,406	2,083,416
Investment Securities	$ 20,463,221	$ 22,912,305

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

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

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

NOTE 4 INVESTMENTS (CONTINUED)

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

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

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

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

NOTE 5 INTEREST IN LIFE ESTATE

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

NOTE 6 STUDENT HOUSING FACILITY PROJECT

During 2016, the Shepherd University Foundation Supporting Organization began the design and construction of a new student housing facility on the Shepherd University campus. The Supporting Organization received interim financing for the project in the form of bond anticipation notes issued by the West Virginia Economic Development Authority. As disclosed in Note 10, the Supporting Organization refinanced the West Virginia Economic Development bond anticipation notes with a 40-year permanent rural development loan from the United States Department of Agriculture.

The Supporting Organization owns the building and associated equipment and furnishings and has entered into a ground lease with Shepherd University. The ground lease began in June 2016 and will expire upon the repayment of all associated outstanding debt borrowed by the Supporting Organization. Upon the expiration of the lease, the building and associated equipment and furnishings will be transferred to Shepherd University. The ground lease agreement requires annual rental payments due 30 days after the receipt of the Supporting Organization's audited financial statements.

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

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

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

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

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

NOTE 7 PROPERTY AND EQUIPMENT

Equipment consists of the following:

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

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

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

NOTE 8 CUSTODIAL LIABILITIES

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

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

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

NOTE 9 GIFT ANNUITIES

The Foundation has entered into several charitable gift annuity agreements with donors. Charitable gift annuities represent a gift of cash, investments or other assets from a donor. In return, the donor receives a fixed stream of income from the Foundation for the rest of their

NOTE 9 GIFT ANNUITIES (CONTINUED)

life. Upon the end of the donor's life, the Foundation takes ownership of the remainder of the gift. Gift annuities are recognized at fair value when received, and the corresponding liabilities are recorded using the present value of future cash flows expected to be paid to the donors and are being amortized over the expected lives of the donors.

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

NOTE 10 LOANS PAYABLE

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

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

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

NOTE 10 LOANS PAYABLE (CONTINUED)

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

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

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

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

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

NOTE 11 EMPLOYEE RETIREMENT PLAN

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

NOTE 12 CONDITIONAL PROMISES TO GIVE

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

NOTE 13 RELATED PARTY TRANSACTIONS – SHEPHERD UNIVERSITY

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

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

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

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

NOTE 14 FAIR VALUE MEASUREMENTS

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

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

- ***Level 2*** – Represented by assets and liabilities similar to Level 1 where quoted prices are not available, but are observable, either directly or indirectly through corroboration with observable market data, such as quoted prices for similar securities and quoted prices in inactive markets and estimated using pricing models or discounted cash flows. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed securities and swap agreements.

- ***Level 3*** – Represented by financial instruments where there is limited activity or unobservable market prices and pricing models significant to determining the fair value measurement include the reporting entity's own assumptions about the market risk. Level 3 securities would include hedge funds, private equity securities, and private investments in public entities.

Fair value of assets measured on a recurring basis at June 30, 2018 and 2017 are as follows:

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

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

(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.

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

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

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

Investments Measured Using the Net Asset Value per Share Practical Expedient

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

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

NOTE 14 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.

NOTE 15 ENDOWMENTS

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

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

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

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

The endowments are invested consistent with an investment policy statement that is monitored by the Foundation's Directors. To satisfy the long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation

NOTE 15 ENDOWMENTS (CONTINUED)

(realized and unrealized) and current yield (interest and dividends). Funds in the endowment are primarily invested in U.S. Government Securities and managed equity funds with several investment managers using an investment philosophy that maintains equities in the range of 25% to 75% of the total fund, alternatives in the range of 5% to 45%, fixed income securities in the range of 0% to 40%, and cash in the range of 0% to 20%.

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

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

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

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

NOTE 16 UNRESTRICTED NET ASSET DEFICIT

The Foundation records all realized and unrealized gains and losses to unrestricted net assets as they are incurred. The unrestricted net asset deficit of the Foundation is primarily the result of cumulative unrealized and realized losses not being allocated as a reduction to temporarily restricted net assets as well as scholarship disbursements from funds in excess of the actual unrealized and realized investment earnings of prior years.

NOTE 16 UNRESTRICTED NET ASSET DEFICIT (CONTINUED)

In addition, excess of expenses over revenues generated from the student facility project has contributed to the unrestricted net asset deficit. In order to reduce the deficit and generate positive unrestricted net assets, the Foundation will need to generate gains on their investments for consecutive years, reduce the level of annual fund disbursements, reduce operating expenses or generate revenues from another outside source. The balance of the unrestricted net asset deficit was $(1,283,767) and $(6,230,161) for the years ended June 30, 2018 and 2017, respectively. Of this deficit, $(101,209) and $(5,856,362) related to Shepherd University Foundation Inc. for the years ended June 30, 2018 and 2017, respectively and $(1,182,558) and $(373,799) related the Shepherd University Foundation Supporting Organization for the years ended June 30, 2018 and 2017, respectively.

NOTE 17 SUBSEQUENT EVENTS

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

SHEPHERD UNIVERSITY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULES OF PROPORTIONATE SHARE AND CONTRIBUTIONS

1. NET PENSION LIABILITY

Schedule of Proportionate Share

Measurement Date	University's Proportionate Share as a percentage of Net Pension Liability	University's Proportionate Share	State's Proportionate Share	Total Proportionate Share	University's Covered Employee Payroll	Unversity's Proportionate Share as a percentage of Covered Payroll	University's Plan Fiduciary Net Position as a percentage of Total Pension Liability
June 30, 2014	0.01302%	$ 449,352	$ 1,015,266	$ 1,464,618	$ 486,027	92.45412%	65.95%
June 30, 2015	0.00945%	$ 327,328	$ 692,199	$ 1,019,527	$ 375,501	87.17101%	66.25%
June 30, 2016	0.00952%	$ 391,112	$ 744,964	$ 1,136,076	$ 478,614	81.71763%	66.25%
June 30, 2017	0.77270%	$ 266,966	$ 590,374	$ 857,340	$ 271,237	98.42536%	66.25%

Schedule of Employer Contributions of TRS

Measurement Date	Actuarily Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contributions as a percentage of Covered Payroll
June 30, 2014	$ 59,257	$ 59,998	$ (741)	$ 486,027	12.34458%
June 30, 2015	$ 42,953	$ 42,953	$ (0)	$ 375,501	11.43885%
June 30, 2016	$ 36,894	$ 36,894	$ -	$ 478,614	7.70851%
June 30, 2017	$ 31,988	$ 34,322	$ (2,334)	$ 271,237	12.65388%

2. NET OPEB LIABILITY

Schedule of Proportionate Share

Measurement Date	University's Proportionate Share as a Percentage of Net OPEB	University's Proportionate Share	State's Proportionate Share	Total Proportionate Share	University's Covered Payroll	University's Proportionate Share as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total OPEB Liability
June 30, 2017	0.36628143%	$ 9,006,820	$ 1,850,010	$ 10,856,830	$ 8,054,749	111.82%	25.10%

Schedule of Contributions

Measurement Date	Actuarily Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Acutal Contributions as a Percentage of Covered Payroll
June 30, 2017	$ 752,336	$ 752,336	$ -	$ 8,054,749	9.34%

Notes to Required Supplementary Information

For the Year Ended June 30, 2018

There are no factors that affect trends in the amounts reported, such as change of benefits terms or assumptions. Information, if necessary, can be obtained from the CPRB Comprehensive Annual Financial Report and the West Virginia Retiree Health Benefit Trust Fund Annual Financial Report.

CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Governors
Shepherd University
Shepherdstown, West Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of Shepherd University (the University), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 12, 2018. Our report includes a reference to other auditors who audited the financial statements of Shepherd University Foundation, Inc., as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of Shepherd University Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

A member of Nexia International

Board of Governors
Shepherd University

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
October 12, 2018

Shepherd University

Financial Statements as of and for the Years Ended June 30, 2019 and 2018, and Independent Auditors' Reports

SHEPHERD UNIVERSITY

TABLE OF CONTENTS

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

To the Governing Board
Shepherd University
Shepherdstown, West Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Shepherd University (the University), a component unit of the West Virginia Higher Education Fund, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Shepherd University Foundation, Incorporated (the Foundation), a discretely presented component unit of the University, which represents 100% of the assets, revenues and net assets of the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

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

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

To the Governing Board
Shepherd University

Opinions

In our opinion, based on our report and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the University as of June 30, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note (2) to the financial statements, the University implemented the provisions of Governmental Accounting Standards Board (GASB) Statements No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* for the year ended June 30, 2018, which represents a change in accounting principle. As of July 1, 2017, the University's net position was restated to reflect the impact of adoption. A summary of the restatement is presented in Note (2). Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 – 12, the Schedule of Proportionate Share of Net Pension Liability and Contributions on page 76, and the Schedule of Proportionate Share on Net OPEB Liability and Contributions on page 77 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2019, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
October 15, 2019

Shepherd University

Management Discussion and Analysis

Fiscal Years 2019 and 2018

About Shepherd University

Shepherd University (the "University") is a state-supported institution within the West Virginia system of higher education. The University was founded in 1871. It offers Bachelor of Arts, Bachelor of Fine Arts, and Bachelor of Science degrees in a wide range of fields, encompassing the liberal arts, business administration, teacher education, the social and natural sciences, and other career oriented areas. Graduate programs include the Master of Arts in Teaching, Master of Arts in Curriculum and Instruction, Master of Business Administration, the Master of Arts in College Student Development and Administration, and the Master of Science in Data Analytics and Information Systems and the Doctoral program in Nursing Practice. The University is accredited by The Higher Learning Commission of the North Central Association.

Overview of the Financial Statements and Financial Analysis

This discussion will emphasize significant changes reflected in the FY19 data compared to the financial statements presented for FY18. There are three financial statements presented: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. This discussion and analysis of the University's financial statements provides an overview of its financial activities for the year and its required supplemental information.

Statement of Net Position

The Statement of Net Position presents end-of-year data concerning assets (current and noncurrent), deferred outflow of resources, liabilities (current and noncurrent), deferred inflow of resources and net position (assets and deferred outflows of resources minus liabilities and deferred inflows of resources) of the University as of June 30, 2019 and 2018. The difference between current and noncurrent assets and liabilities is discussed in the footnotes to the financial statements.

From the data presented, readers of the Statement of Net Position can determine the assets available to continue the operations of the institution. They may further determine how much the institution owes vendors and lending institutions. Finally, the Statement of Net Position provides a picture of net position and the availability of carryover funds for use by the University in future years.

Components of net position are divided into three major categories. The first category, net investment in capital assets, provides the institution's equity in property, plant, and equipment owned by the institution, net of any accumulated depreciation and related debt~~s~~. The second asset category is restricted, which is divided into two categories, nonexpendable and expendable. Shepherd University does not currently have nonexpendable restricted resources since all funds of this nature are directed to the Shepherd University Foundation. The corpus of nonexpendable restricted resources would be available only for investment purposes. Expendable restricted resources are available for expenditure by the institution but must be spent

for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The third category is unrestricted net position. Unrestricted net position is available for any lawful purpose of the institution.

Condensed Schedules of Net Position

(In thousands)

	June 30		
	2019	2018	2017*
Assets:			
Cash	$ 9,575	$ 11,019	$ 14,566
Other Current Assets	1,282	2,242	1,603
Noncurrent Assets	113,220	117,896	123,315
Total Assets	124,077	131,157	139,484
Total Deferred Outflows of Resources	1,180	847	87
Total Assets and Deferred Outflow of Resources	125,257	132,004	139,571
Liabilities:			
Current Liabilities	8,050	8,110	7,950
Noncurrent Liabilities	44,556	47,168	51,484
Total Liabilities	52,606	55,278	59,434
Total Deferred Inflows of Resources	2,277	1,798	195
Total Liabilities and Deferred Inflows of Resources	54,883	57,076	59,629
Net Position:			
Net Invesment in Capital Assets	75,219	78,308	81,731
Restricted - Expendable	835	513	442
Unrestricted	(5,680)	(3,893)	(2,231)
Total Net Position	$ 70,374	$ 74,928	$ 79,942

* Does not include the effects of GASB 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*"

Assets

Total Assets for FY19 decreased approximately 5.4 percent to $124 million compared to $131 million for FY18 and compared to a decline of 6.0 percent, $8.3 million from FY17 to FY18. However, within Current Assets, Cash decreased by $1.44 million from the previous year. This continued the trend from FY17 to FY18 of the decline in Cash of $3.55 million. While the decrease is lower from FY18 to FY19, the Operational Expenses continue to exceed Revenues. The decline in student enrollments has resulted in a decline in Tuition & Fee revenues in spite of a 3.1 percent Tuition & Fee increase for in-state tuition and fees and a 1 percent increase in out-of-state tuition and fees for the academic year beginning in FY19.

The majority of non-current assets are comprised of capital assets. These assets are reported net of accumulated depreciation. The University's annual investment in capital projects and equipment can significantly impact the value of non-current assets from year to year. The University again deferred any noncritical large capital projects in FY19 that would have offset accumulated depreciation. Non-current assets decreased by $4.7 million compared to FY18 continuing the trend from FY17 to FY18 which declined $5.4 million.

The net result of FY19 activities resulted in a $7.1 million decrease in total assets.

Deferred Outflows of Resources:

Deferred Outflows of Resources represent the consumption of Net Position by the University that is applicable to future years. There is an increase in deferred outflows of $332,780 from FY18 to FY19. In FY19, the University had combined deferred outflows of resources related to pensions and other postemployment benefits of $1,180,076, as required by both GASB 68 and GASB 75. This deferred outflow of resources directly relates to the required contributions the University has made on behalf of employees enrolled in the defined benefit pension plan (GASB 68) and contributions the University has made on behalf of employees eligible to receive other postemployment benefits (GASB 75).

Liabilities:

Liabilities include but are not limited to Accounts Payable, Accrued Liabilities, Unearned Revenues, Bonds Payable and Other Post-employment Benefits (OPEB) liability. Total Liabilities decreased 4.8 percent, $2.67 million from FY18 to FY19. This is comparison to the 7 percent decrease, $4.16 million from FY17 to FY18.

Significant changes include:

- A decrease in Accounts Payable of $549,917 from FY18 to FY19 related to, restructuring of internal processing in response to State procurement requirements which impacted timely processing of payables in FY19.

- A minimal increase in Accrued Liabilities of $11,783 at fiscal year-end.

- A decrease in the OPEB liability of $751,030 is due to GASB 75 actuarial calculations provided by the state. The state has established the West Virginia Retirees Health Benefit Trust Fund which will be used to eliminate the liability over time.

- A decrease in Bonds Payable of $1,682,882 resulting from principal payments. The increase in Capital Lease Obligations of $297,867 results from monthly lease principal payments and the addition of the Ram stadium turf replacement capital lease in the amount of $445,144.

Deferred Inflows of Resources:

Deferred Inflows of Resources are the acquisitions of net position by the University that are applicable to future years. In FY19, the University had deferred inflows of resources related to pensions and other postemployment benefits of $2,276,602. This is a direct result of the ongoing actuarial calculations provided by the state as they pertain to GASB Statement No. 68 and to GASB Statement No. 75. The amount of increase in FY19 of $478,259 represents a 26.6 percent increase, as compared to FY18.

Net Position

From FY18 to FY19 Total Net Position decreased by $4.55 million. Unrestricted net position overall decreased significantly by $1.79 million as a continued result of GASB No. 68 and GASB No. 75 requirements to record the unfunded pension liabilities and the other post-employment benefit liabilities. In addition, the Total Net Position decrease resulted from the continuing decline in operating results due to the enrollment declines and lack of sufficient funding from State appropriations. This continued the trend from FY17 to FY18 in which there was a decline in net position of $5.0 million.

Statement of Revenues, Expenses, and Changes in Net Position

Changes in Total Net Position on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of the statement is to present the revenues received and expenses paid by the institution, both operating and non-operating, and any other revenues, expenses, gains, and losses received or expended by the University.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating Expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Revenues received for which goods and services are not provided are reported as non-operating revenues. For example, State appropriations are non-operating because they are provided by the State to the institution without the State directly receiving commensurate goods and services for those revenues.

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

(In thousands)

	Years Ended June 30,		
	2019	2018	2017*
Operating Revenues	$ 34,784	$ 37,297	$ 39,192
Operating Expenses	56,089	58,393	58,432
Operating Loss	(21,305)	(21,096)	(19,240)
Nonoperating Revenues - Net	16,683	15,104	13,630
Capital Grants	68	-	-
Decrease in Net Position	(4,554)	(5,992)	(5,610)
Net Position - Beginning of Year	74,928	79,941	85,551
Cummulative effect of change in accounting principle	-	979	-
Net Position - Beginning of Year, restated	74,928	80,920	85,551
Net Position - End of Year	$ 70,374	$ 74,928	$ 79,941

* Does not include the effects of GASB 75, *"Accounting and Financial Reporting for Postemployement Benefits Other Than Pensions."*

Operating Revenues:

Operating Revenues consist of student tuition and fees, contracts and grants, interest on student loans receivable, sales and services of educational activities, auxiliary enterprise revenue and other operating revenues. Total operating revenues for FY19 decreased by $2.5 million or 6.7 percent compared to the 4.8 percent, $1.9 million decline from FY17 to FY18.

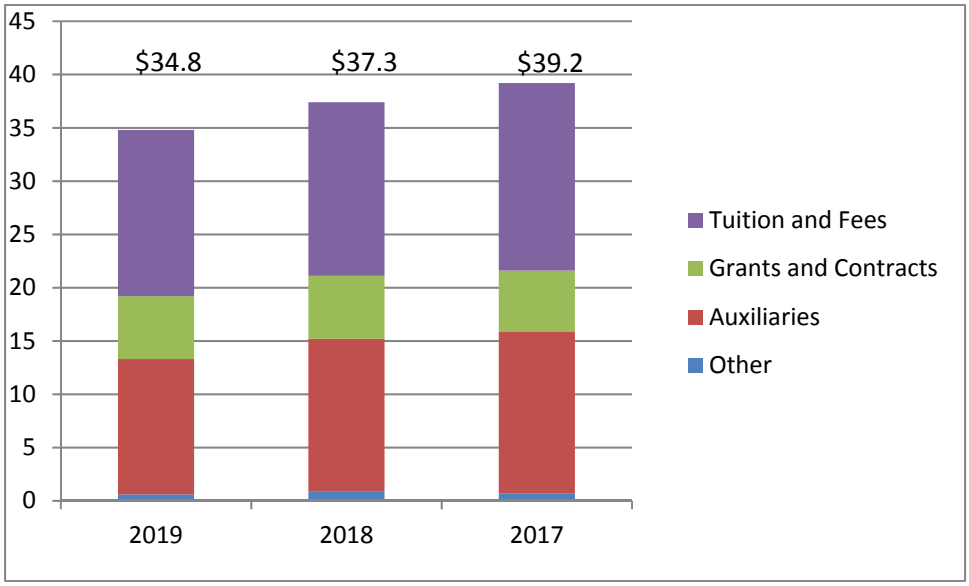
During FY19, student tuition and fees revenue decreased from FY18 by $659,371 or 4.1 percent due to a combination of a 3.1 percent tuition increase for in-state students, the 1 percent tuition increase for out-of-state students and a continuing enrollment shortfall. Overall, student tuition and fees as a percentage of total operating revenues increased from 43.6 percent to 44.9 percent.

Grants and contracts comprise approximately 16.2 percent of the operating revenues and total $5.6 million in FY19. This is a $230,357 decrease from FY18, which is a result of a decrease in federal grants of $226,461, an increase in state grants of $9,487 and a decrease in private grants of $13,383.

Auxiliary Enterprise Revenue, which includes resources generated by the operation of the bookstore, wellness center, dining services and residence halls, experienced a decrease of $1,558,433 or 10.9 percent in FY19. The decrease is largely attributed to the outsourcing of dining services to Chartwells. This decline is Auxiliary Enterprise revenue is offset by a comparative decrease in Auxiliary Enterprise expenses for FY19, as noted in that section of this analysis.

Operating Revenues – FY 2019-2017

(In millions)



Operating Expenses:

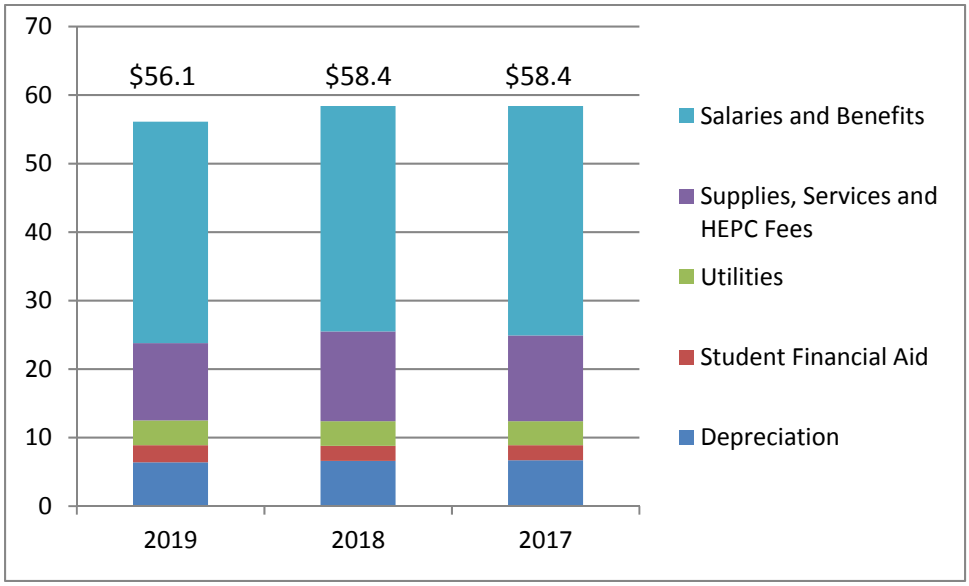
Overall, FY19 operating expenses decreased substantially when compared to FY18, by $2.304 million. This decline results primarily from the outsourcing of dining services to Chartwells, beginning in FY19.

Salaries and benefits represent 57.6 percent of the total FY19 operating expenses, a 1.9% decrease over FY18. Employee compensation, including benefits, decreased by $615,738 compared to FY18. This was the result of vacancy salary savings partially offset by salary equity adjustments, faculty promotions and the inception of compliance with GASB 75 related to Other Post-Employment Benefits (OPEB). The reductions include Salaries and Benefits expense, ($615,738) decreases in Depreciation expense, ($251,783), Fees assessed by the Commission, ($242,126), and Supplies and other services, ($1,477,691). Student Financial Aid increased $251,749 and there was a slight increase in Utilities, $31,207, year-over-year.

The University continued to implement University-wide cost containment strategies to offset fixed cost increases for FY19.

Operating Expenses – FY 2019-2017

(In millions)



Non-operating Revenues (Expenses)

Net Nonoperating Revenues slightly increased by $1.579 million, 10.5 percent in FY19.

Interest Expense decreased $56,694 (3.9%) due to the principal reductions in bonds and leases. Gifts increased $344,243 (20.7%) and PELL increased $176,480 (3.4%).

The net result of operating and non-operating revenues and expenses was a loss of approximately $4.55 million.

Statement of Cash Flows

The final statement presented by the University is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the University during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for non-operating, non-investing, and non-capital financing purposes. The third section deals with cash flows from capital and related financing activities. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Position.

Cash inflows from operating activities include tuition and fees, auxiliary enterprise charges, and contracts and grants. Major cash outlays in operating activities include payments to and on behalf of employees of $32.1 million and payments to suppliers of $10.8 million. Net cash used for operating activities decreased by

$758,763 million from FY18 to FY19. The continuing decline in enrollment resulted in the reduction of Student Tuition & Fees in the amount of $802,391 and in the reduction of Auxiliary Enterprise charges of $1.611 million. Decreases in salaries and benefits total $2.0 million. Payments to Suppliers decreased by $1.508 million, while payments to Utilities increased $134,486. In addition, Contract & Grant revenues decreased by $206,041 from FY19 to FY18.

Capital financing activities represent funds that were used to purchase or add value to capital assets. Even though as in FY18 and FY17, the University did not undertake any substantial capital projects for FY19. Capital asset purchases were kept to a minimum, with a $77,000 increase over FY18. The Ram stadium turf was replaced in FY19 and was financed by a capital lease in the amount of $445,150. This purchase also resulted in a loss on disposal of the original turf of approximately $193,000, due to the unamortized portion of that lease. The Shaw and Thacher residence halls project to replace flooring will span both FY19 and FY20. Upgrades to the Butcher elevator in the amount of $98,000 were completed in FY19 and were funded from East Bond proceeds provided by the Higher Education Policy Commission (HEPC).

Overall cash and cash equivalents at FY19 year-end decreased $1.44 million as compared to the FY18 decrease of $3.5 million.

Condensed Consolidated Schedules of Cash Flows

(In thousands)

	Years Ended June 30,		
	2019	2018	2017
Net cash (used in) provided by:			
Operating activities	$ (13,926)	$ (14,685)	$ (12,413)
Noncapital financing activities	17,394	16,084	15,610
Capital and related financing activities	(5,139)	(5,129)	(5,008)
Investing activites	227	183	117
Increase (decrease) in Cash	(1,444)	(3,547)	(1,694)
Cash and cash equivalents - beginning of year	11,019	14,566	16,260
Cash and cash equivalents - end of year	$ 9,575	$ 11,019	$ 14,566

Economic Outlook

Shepherd's financial strength and capabilities continue to be challenged by declining enrollment that is evidenced throughout the country. While the decline in enrollment continued in FY19, the rate of decline is less than the previous fiscal year. This positive sign resulted from focused and strategic collaborative efforts to enhance enrollment through recruitment of both in-state and out-of-state students and to retain current students.

The dual-enrollment of high school students in local high schools and expanding recruitment efforts into neighboring out-of-state counties furthers the accomplishment of targeted growth. In addition, the retention rates continue to remain at an above-average level as a result of the Student Success program. This program assists students who face many challenges through the transitional period as they enter higher education. A second initiative that improves retention is the Retention Interventions Team (RIT) which provides every

undergraduate with a dedicated staff advocate. Rigorous efforts are being made to maximize every opportunity to improve student success, which further increases the ability to retain existing students. Attracting more international students to Shepherd is also a strategy the University is employing to advance the long-term enrollment and revenue growth.

Shepherd University's state appropriation increased slightly ($810,588) in FY19 as compared to FY18. This included a partial funding ($310,588) of the FY19 five percent pay raise that the Governor mandated for all full-time State employees. In addition, a one-time funding from the appropriation of $500,000 is being provided from excess revenues and is available to Shepherd for FY20 spending. This begins to equalize the funding Shepherd receives among all State higher education agencies. However, the insufficient state appropriation for FY19 continued to inform the University's FY19 operating budget regarding the need for tuition and fee increases.

The distribution of funding from the State was analyzed by the Legislature during FY19 and, in an attempt to equalize funding among all State higher education agencies, Shepherd's appropriation is receiving an increase of an additional $2.7 million in FY20. This funding will be utilized to reduce the operating deficit as well as offset the tuition and fees decline anticipated in FY20. With the ongoing challenges of enrollment and escalating fixed costs, the University will continue to implement cost containment measures and develop plans to enhance revenue through new revenue opportunities.

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

Chartwells assumed ownership and operations of University dining services on July 1, 2018. Dining options for students are available at various locations across campus. Students did not experience changes in the meal plans and rates for FY19. Billing students for their meal plan charges will continue to be included in the total charges billed each semester by the University. The University will remit these funds to Chartwells throughout the fall and spring academic semesters. Shepherd also receives commission revenue for campus catering services from Chartwells.

The Shepherd University Advancement Office in partnership with the Shepherd University Foundation continues to increase efforts to raise funds to provide sustaining support for academic, scholarship, cultural and athletic programs; faculty and staff development; campus renewal and beautification; and other department programs and initiatives. Outreach to alumni and regional business leaders continues, not only for financial assistance but for ongoing assessment of existing academic programs and development of new programmatic initiatives.

Management recommendations for setting tuition rates will continue to be focused and strategic to balance student affordability with the need for increased revenue. Marketing efforts continue to be expanded to focus on a specific population in the surrounding counties in Virginia, Maryland and Pennsylvania. In consideration of the continuing enrollment decline, the focus in the upcoming years will be to control costs to students, while attracting additional residential and out-of-state students.

The University staff and Board of Governors continues these efforts and will implement new strategies and initiatives to sustain programs and activities, plan for future challenges and growth, and strengthen the institution's financial position.

Contacting The University's Financial Management

This financial report is designed to provide a general overview of the University's finances and to demonstrate the University's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the University's Vice President for Finance / Chief Financial Officer at (304) 876-5490, or by mail at:

Shepherd University
Pamela W. Stevens
Vice President for Finance / Chief Financial Officer

SHEPHERD UNIVERSITY

STATEMENTS OF NET POSITION
AS OF JUNE 30, 2019 AND 2018

	2019	2018
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 9,574,777	$ 11,018,880
Accounts receivable — net	1,230,428	2,109,376
Due from Commission	15,378	16,097
Loans to students — current portion	35,503	100,091
Inventories	1,068	16,299
Total current assets	10,857,154	13,260,743
NONCURRENT ASSETS:		
Other Receivable	199,509	217,675
Loans to students — net of allowance of $86,534 and $480,407 in 2019 and 2018, respectively	282,277	317,245
Capital assets — net	112,738,533	117,361,847
Total noncurrent assets	113,220,319	117,896,767
TOTAL ASSETS	124,077,473	131,157,510
TOTAL DEFERRED OUTFLOW OF RESOURCES:		
Deferred outflows related to pensions and OPEB	1,180,076	847,296
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	$ 125,257,549	$ 132,004,806

(Continued)

SHEPHERD UNIVERSITY

STATEMENTS OF NET POSITION
AS OF JUNE 30, 2019 AND 2018

LIABILITIES, DEFERRED INFLOWS AND NET POSITION	2019	2018
CURRENT LIABILITIES:		
Accounts payable	$ 713,006	$ 1,262,922
Accrued liabilities	2,769,053	2,757,270
Compensated absences — current portion	763,107	737,330
Unearned revenues	1,559,652	1,195,825
Deposits held in custody for others	156,724	178,687
Bonds payable — current portion	1,734,732	1,680,678
Note payable — current portion	150,000	150,000
Capital leases payable — current portion	204,416	147,277
Total current liabilities	8,050,690	8,109,989
NONCURRENT LIABILITIES:		
Advances from federal sponsors	41,792	403,418
Compensated absences	589,542	415,010
Other postemployment benefits liability, net of current portion	8,255,790	9,006,820
Net pension liability	238,603	266,966
Bonds payable, net of current portion	34,789,279	36,526,215
Note payable, net of current portion	225,000	375,000
Capital leases payable, net of current portion	415,674	174,946
Total noncurrent liabilities	44,555,680	47,168,375
Total liabilities	52,606,370	55,278,364
DEFERRED INFLOW OF RESOURCES:		
Deferred inflows related to pensions and OPEB	2,276,601	1,798,343
NET POSITION:		
Net Investment in capital assets	75,219,432	78,307,730
Restricted — expendable:		
Loans	382,979	82,432
Other restricted	452,388	430,751
Total restricted - expendable	835,367	513,183
Unrestricted	(5,680,221)	(3,892,814)
Total net position	70,374,578	74,928,099
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION	$ 125,257,549	$ 132,004,806

See notes to financial statements. (Concluded)

SHEPHERD UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
OPERATING REVENUES:		
Student tuition and fees — net of scholarship allowance of $12,120,237 and $11,618,993 in 2019 and 2018, respectively	$ 15,603,405	$ 16,262,776
Contracts and grants:		
Federal	1,581,068	1,807,529
State	3,997,367	3,987,880
Private	47,562	60,945
Interest on student loans receivable	220,642	15,364
Sales and services of educational activities	29,069	49,530
Auxiliary enterprise revenue — net of scholarship allowance of $882,945 and $1,193,611 in 2019 and 2018, respectively	12,701,529	14,259,962
Other operating revenues	603,505	852,637
Total operating revenues	34,784,147	37,296,623
OPERATING EXPENSES:		
Salaries and wages	26,256,095	26,695,420
Benefits	6,031,477	6,207,890
Supplies and other services	11,350,843	12,828,534
Utilities	3,584,757	3,553,550
Student financial aid — scholarships and fellowships	2,488,604	2,236,855
Depreciation	6,376,873	6,628,656
Fees assessed by the Commission for operations	-	242,126
Total operating expenses	56,088,649	58,393,031
OPERATING LOSS	(21,304,502)	(21,096,408)

(Continued)

SHEPHERD UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
NONOPERATING REVENUES (EXPENSES):		
State appropriations	$ 10,171,542	$ 9,360,954
Payments on behalf of the University	578,250	628,045
Federal Pell grants	5,285,978	5,109,498
Investment income	227,356	183,348
Interest expense	(1,370,816)	(1,427,510)
Fees assessed by the Commission for debt service	(18,574)	(18,303)
Gifts	2,001,887	1,657,644
Loss on disposal of equipment	(193,037)	(389,986)
Net nonoperating revenues	16,682,586	15,103,690
Capital Grants	68,395	-
DECREASE IN NET POSITION	(4,553,521)	(5,992,718)
NET POSITION — Beginning of year	74,928,099	79,941,711
Cummulative effect of change in accounting principle	-	979,106
NET POSITION - Beginning of year, as restated	74,928,099	80,920,817
NET POSITION — End of year	$ 70,374,578	$ 74,928,099

See notes to financial statements. (Concluded)

SHEPHERD UNIVERSITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	$ 15,933,649	$ 16,736,040
Contracts and grants	5,541,588	5,747,629
Payments to and on behalf of employees	(32,112,002)	(34,127,228)
Payments to suppliers	(10,802,549)	(12,310,591)
Payments to utilities	(3,630,476)	(3,495,990)
Payments for scholarships and fellowships	(2,488,604)	(2,236,855)
Loans issued to students	-	(56,600)
Collection of loans to students	320,198	107,807
Sales and service of educational activities	29,069	49,530
Auxiliary enterprise charges	12,679,566	14,290,927
Fees assessed by the Commission	-	(242,126)
Other receipts — net	603,505	852,638
Net cash used in operating activities	(13,926,056)	(14,684,819)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	10,171,542	9,360,954
Federal Pell grants	5,285,978	5,109,498
Gifts	2,001,887	1,657,644
Federal student loan program — direct lending receipts	16,001,155	17,233,702
Federal student loan program — direct lending payments	(16,066,255)	(17,277,527)
Net cash provided by noncapital financing activities	17,394,307	16,084,271
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Capital note and bond proceeds from the Commission	68,395	-
Interest paid on capital debt and leases	(1,370,816)	(1,427,510)
Purchases of capital assets	(1,840,759)	(1,763,696)
Principal paid on capital debt and leases	(1,977,956)	(1,920,033)
Fees assessed by the Commission	(18,574)	(18,303)
Net cash used in capital financing activities	(5,139,710)	(5,129,542)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on investments	227,356	183,348
Net cash provided by investing activities	227,356	183,348
DECREASE IN CASH AND CASH EQUIVALENTS	(1,444,103)	(3,546,742)
CASH AND CASH EQUIVALENTS — Beginning of year	11,018,880	14,565,622
CASH AND CASH EQUIVALENTS — End of year	$ 9,574,777	$ 11,018,880

(Continued)

SHEPHERD UNIVERSITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (21,304,502)	$ (21,096,408)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	6,376,873	6,628,656
Net accretion of premiums/discounts on bonds payable	(2,204)	(2,204)
Effect of changes in operating Assets and Liabilities:		
Accounts receivables — net	944,048	(984,765)
Other receivable	18,166	36,965
Loans to students — net	99,556	35,843
Due from the Commission	719	(3,060)
Inventories	15,231	392,811
Accounts payable	(210,609)	164,553
Accrued liabilities	11,783	(339,224)
Compensated absences	200,309	(37,185)
Other postemployment benefits liability	(22,647)	1,021,560
Net pension liability	(33,017)	(818,583)
Deferred revenue	363,827	380,699
Deposits held in custody for others	(21,964)	30,965
Advances from federal sponsors	(361,625)	(95,442)
NET CASH USED IN OPERATING ACTIVITIES	$ (13,926,056)	$ (14,684,819)
NONCASH TRANSACTIONS		
Property additions in accounts payable	$ 86,482	$ 90,611
Property additions acquired under capital lease obligation	$ 445,144	$ -

See notes to financial statements. (Concluded)

SHEPHERD UNIVERSITY

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF 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	19,753,054	20,461,999
Total Assets	$ 51,913,271	$ 52,199,188
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	21,418,621	21,740,990
Total Liabilities	$ 22,739,564	$ 23,738,648
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	21,383,830	20,718,853
Total Net Assets	$ 29,173,707	$ 28,460,540
Total Liabilities and Net Assets	$ 51,913,271	$ 52,199,188

See notes to financial statements.

SHEPHERD UNIVERSITY

SHEPHERD UNIVERSITY FOUNDATION, INC. AND SUPPORTING ORGANIZATION
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE 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	2,307,590	2,217,650
Total Revenue and Other Support	4,673,778	10,561,789
EXPENSES		
Program expenses	4,638,679	5,079,880
General and administrative:	576,332	529,503
Total Expenses	5,215,011	5,609,383
Change In Net Assets Without Donor Restrictions	$ (541,233)	$ 4,952,406
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	(2,307,590)	(2,217,650)
Change in Net Assets With Donor Restrictions	1,254,400	(4,912,935)
Increase in Net Assets	713,167	39,471
NET ASSETS, BEGINNING OF YEAR	28,460,540	28,421,069
NET ASSETS, END OF YEAR	$ 29,173,707	$ 28,460,540

See notes to financial statements

1. ORGANIZATION

Shepherd University (the "University") is governed by the Shepherd University Board of Governors (the "Board"). The Board was established by Senate Bill 653 (S.B. 653).

Powers and duties of the Board include, but are not limited to, the power to determine, control, supervise, and manage the financial, business, and educational policies and affairs of the University under its jurisdiction; the duty to develop a master plan for the institution; the power to prescribe the specific functions and the University's budget request; the duty to review at least every five years all academic programs offered at the University; and the power to fix tuition and other fees for the different classes or categories of students enrolled at its institution.

S.B. 653 also created the West Virginia Higher Education Policy Commission (the "Commission"), which is responsible for developing, gaining consensus around, and overseeing the implementation and development of a higher education public policy agenda.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the University have been prepared in accordance with generally accepted accounting principles as prescribed by Governmental Accounting Standards Board standards (GASB). The financial statement presentation required by GASB provides a comprehensive, entity-wide perspective of the University's assets, liabilities, deferred inflows and outflows of resources, net position, revenues, expenses, changes in net position, and cash flows.

Reporting Entity — The University is a component unit of the State of West Virginia (the "State"), and an operating unit of the West Virginia Higher Education Fund and represents separate funds of the State that are not included in the State's general fund. The University is a separate entity which, along with all the State institutions of higher education, the Commission (which includes West Virginia Network for Educational Telecomputing (WVNET)), and West Virginia Council for Community and Technical College Education, form the Higher Education Fund of the State. The Higher Education Fund is considered a component unit of the State, and its financial statements are discretely presented in the State's comprehensive annual financial report.

The accompanying financial statements present all funds under the authority of the University, including its blended component unit, the Shepherd University Research Corporation (the "Research Corporation"), a nonprofit, nonstock corporation. The basic criterion for inclusion in the accompanying financial statements is the exercise of oversight responsibility derived from the University's ability to significantly influence operations and accountability for fiscal matters of the Research Corporation.

The audited financial statements of Shepherd University Foundation, Incorporated (the Foundation) are discretely presented here with the University's financial statements for the fiscal years ended June 30, 2019 and 2018, in accordance with GASB as a benefit/burden relationship exists between the University and the Foundation. The Foundation is a private nonprofit organization that reports under FASB standards. As such, certain revenue recognition criteria and presentation features are different from

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Financial Statement Presentation — GASB establishes standards for external financial reporting for public colleges and universities and requires that financial statements be presented to focus on the University as a whole. The University's net position is classified into three categories according to external donor restrictions or availability of assets for satisfaction of the University's obligations. The University's components of net position are classified as follows:

Net Investment in Capital Assets — This represents the University's total investment in capital assets, net of depreciation and outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included.

Restricted — Expendable — This includes resources in which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

The West Virginia State Legislature (the "State Legislature"), as a regulatory body outside the reporting entity, has restricted the use of certain funds by Article 10, *Fees and Other Money Collected at State Institutions of Higher Education*, of the West Virginia State Code. House Bill 101 passed in March 2004 simplified the tuition and fee restrictions to auxiliaries and capital items. These activities are fundamental to the normal ongoing operations of the institution. These restrictions are subject to change by future actions of the State Legislature.

Restricted — Nonexpendable — This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The University does not have any restricted nonexpendable component of net position at June 30, 2019 or 2018.

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Noncurrent Cash, Cash Equivalents, and Investments — Cash, cash equivalents, and investments that are (1) externally restricted to make debt service payments and long-term loans to students, or to maintain sinking or reserve funds, (2) to purchase capital or other noncurrent assets or settle long-term liabilities, and (3) permanently restricted components of net position, are classified as noncurrent assets in the accompanying statements of net position.

Capital Assets — Capital assets include property, plant, and equipment, books and materials that are part of a catalogued library, and infrastructure assets. Capital assets are stated at cost at the date of acquisition or construction, or acquisition value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and infrastructure, 20 years for land improvements and library books, and 3 to 10 years for furniture and equipment. The University capitalizes all purchases of library books using group depreciation and uses a capitalization threshold of $1,000 for other capital assets.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

the fiduciary net position of the West Virginia Teachers' Retirement System (TRS), administered by the West Virginia Consolidated Public Retirement Board (CPRB), and additions to/reductions from the TRS fiduciary net position have been determined on the same basis as they are reported in the TRS financial statements, which can be found at https://www.wvretirement.com/Publications.html#CAFR . The plan schedules of TRS are prepared using the accrual basis of accounting and economic resources measurement focus in accordance with U.S. GAAP as prescribed by GASB. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Investments are reported at fair value. Detailed information on investment valuation can be found in the TRS financial statements. Management of TRS has made certain estimates and assumptions relating to employer allocation schedules, and actual results could differ. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflow of resources related to pensions, and pension expense, information about the fiduciary net position of the TRS and additions to/deductions from TRS's fiduciary net position have been determined on the same basis as they are reported to TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms (See Note 13).

Other Postemployment Benefits (OPEBs) — GASB provides standards for the measurement, recognition, and display of OPEB expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. During FY 2006, House Bill No. 4654 was established to create a trust fund for postemployment benefits for the State. Effective July 1, 2007, the University was required to participate in this multiple employer cost-sharing plan, the West Virginia Retiree Health Benefit Trust Fund (RHBT), sponsored by the State of West Virginia. Details regarding this plan and its stand-alone financial statements can be obtained by contacting the West Virginia Public Employees Insurance Agency (PEIA), State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston, WV 25305-0710 or http://www.wvpeia.com. For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the RHBT and additions to/deductions from the RHBT's fiduciary net position have been determined on the same basis as they are reported by RHBT. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows of Resources – Consumption of net position by the University that is applicable to a future fiscal year is reported as a deferred outflow of resources on the statement of net position. As of June 30, 2019 and 2018, the University had deferred outflows of resources related to pensions and OPEB of $46,992 and $1,133,084, respectively (see Notes 10 and 14).

Deferred Inflows of Resources - Acquisition of net position by the University that is applicable to a future fiscal year is reported as a deferred inflow of resources on the statement of net position. As of June 30, 2019 and 2018, the University had deferred inflows of resources related to pensions and OPEB of $136,634 and $2,139,968, respectively (see Notes 10 and 14).

Compensated Absences — GASB requires entities to accrue for employees' rights to receive compensation for vacation leave or payments in lieu of accrued vacation or sick leave as such benefits are earned and payment becomes probable. The University's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1 1/2 sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Certain faculty employees (generally those with less than a 12-month contract) earn a similar extended health or life insurance coverage retirement benefit based on years of service. Generally 3 1/3 years of teaching service extend health insurance for one year of single coverage and five years extend health insurance for one year of family coverage. The same hire date mentioned above also applies to coverage for faculty employees. Faculty hired after July 1, 2009, will no longer receive years of service credit toward insurance premiums when they retire. Employees hired after July 1, 2010 receive no health insurance premium subsidy from the University. Two groups of employees hired after July 1, 2010 will not be required to pay the unsubsidized rate: 1) active employees who were originally hired before July 1, 2010, who have a break in service of fewer than two years after July 1, 2010; and 2) retired employees who retired before July 1, 2010, return to active service after July 1, 2010, and then go back into retirement. In those cases, the original hire date will apply.

The estimated expense and expense incurred for the vacation leave or OPEB benefits are recorded as a component of benefits expense in the statements of revenues, expenses, and changes in net position.

Risk Management — The State's Board of Risk and Insurance Management (BRIM) provides general, property and casualty, and liability coverage to the University and its employees. Such coverage may be provided to the University by BRIM through self-insurance programs maintained by BRIM or policies underwritten by BRIM that may involve experience-related premiums or adjustments to BRIM.

BRIM engages an independent actuary to assist in the determination of its premiums so as to minimize the likelihood of premium adjustments to the University or other participants in BRIM's insurance programs. As a result, management does not expect significant differences between the premiums the University is currently charged by BRIM and the ultimate cost of that insurance based on the University's actual loss experience. In the event such differences arise between estimated premiums currently charged by BRIM to the University and the University's ultimate actual loss experience, the difference will be recorded as the change in estimate becomes known.

In addition, through its participation in the PEIA and third-party insurers, the University has obtained health, life, prescription drug coverage, and coverage for job-related injuries for its employees. In exchange for payment of premiums to PEIA and the third-party insurer, the University has transferred its risks related to health, life, prescription drug coverage, and job-related injuries.

Classification of Revenues — The University has classified its revenues according to the following criteria:

Operating Revenues — Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances; (3) most federal, state, local, and nongovernmental operating grants and contracts; and (4) sales and services of educational activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Nonoperating Revenues — Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB, such as state appropriations, federal Pell grants, and investment income, and sale of capital assets (including natural resources).

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

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

Federal Financial Assistance Programs — The University makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students, through entities like the University. Direct student loan receivables are not included in the University's statements of net position, as the loans are repayable directly to the U.S. Department of Education. In FY19 and FY18, the University received and disbursed approximately $16-17 million under the Federal Direct Student Loan Program on behalf of the U.S. Department of Education, which is not included as revenue and expense in the statements of revenues, expenses, and changes in net position.

The University also distributes other student financial assistance funds on behalf of the federal government to students under the federal Pell Grant, Supplemental Educational Opportunity Grant, SMART Grant, College Work Study programs Grant, and Academic Competitiveness Grant. The activity of these programs is recorded in the accompanying financial statements. In FY19 and FY18, the University received and disbursed $5,526,300 and $5,317,169, respectively, under these federal student aid programs.

Scholarship Allowances — Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the statements of revenues, expenses, and changes in net position. Scholarship allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the student's behalf.

Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers. Certain aid, such as loans, funds provided to students as awarded by third parties, and Federal Direct Lending, is accounted for as a third-party payment (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on a University basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third-party aid.

Government Grants and Contracts — Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The University recognizes revenue associated with

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Reclassifications – Certain reclassifications have been made to the prior year presentation to conform to the current year presentation. The reclassifications did not affect net position or changes thereon.

The University implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* during the year ended June 30, 2018. This Statement will require the University to reports its share of the net OPEB liability and expense, as allocated to it by the West Virginia Retiree Health Benefit Trust Fund (RHBT). The balance of the net OPEB liability and related deferred outflows of resources and deferred inflows of resources at July 1, 2016 is reported on the Statement of Revenues, Expenses, and Changes in Net Position as a restatement to the 2017 Net Position – beginning of year.

	2018
Net Position - begninning of year, as previously restated	$ 79,941,711
Balance of the net OPEB liability and related deferred outflows of resources and deferred inflows of resources	979,106
Net Position- beginning of year, as restated	$ 80,920,817

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Statement No. 83, *Certain Asset Retirement Obligations*, which is effective for fiscal years beginning after June 15, 2019. Statement No. 83 establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for legally enforceable liabilities associated with the retirement of tangible capital assets. Examples of asset retirements covered under this standard are the decommissioning of a nuclear reactor or the dismantling and removal of sewage treatment plants as required by law. The University has not yet determined the effect that the adoption of GASB Statement No. 83 may have on its financial statements.

Statement No. 84, *Fiduciary Activities*, which is effective for fiscal years beginning after December 15, 2019. Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments to determine whether an activity should be reported in a fiduciary fund in the financial statements. The University has not yet determined the effect that the adoption of GASB Statement No. 84 may have on its financial statements.

Statement No. 87, *Leases*, which is effective for fiscal years beginning after December 15, 2019. Statement No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. In other words, most leases currently classified as operating leases will be accounted for and reported in the same manner as capital leases. The University has not yet determined the effect that the adoption of GASB Statement No. 87 may have on its financial statements.

Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements,* which is effective for fiscal years beginning after June 15, 2019. Statement No. 88 establishes clarity for which liabilities governments should include when disclosing information related to debt. The University has not yet determined the effect that the adoption of GASB Statement No. 88 may have on its financial statements.

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of Construction Period,* which is effective for fiscal years beginning after December 15, 2019. Statement No. 89 establishes accounting requirements where interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using economic resources measurement focus. As a result, interest cost incurred before the end of the construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The University has not yet determined the effect that the adoption of GASB Statement No. 89 may have on its financial statements.

Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61,* which is effective for fiscal years beginning after December 15, 2018. Statement No. 90 establishes consistency and comparability of reporting a government's majority interest in a legally separate organization to improve the relevance of the financial statement information for certain component units. The University has not yet determined the effect that the adoption of GASB Statement No. 90 may have on its financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Statement No. 91, *Conduit Debt Obligations,* which is effective for fiscal years beginning after December 15, 2020. Statement No. 91 requires issuers to disclose information about their conduit debt obligations, organized by type of commitment, including aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. The University has not yet determined the effect that the adoption of GASB No. 91 may have on its financial statements.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents as of June 30, 2019 and 2018 was as follows:

	2019	2018
State Treasurer	$ 8,527,017	$ 10,220,761
Bank	1,047,760	798,119
	$ 9,574,777	$ 11,018,880

Cash and cash equivalents with the State Treasurer included $143,155 in FY19 and $114,222 in FY18 of restricted cash for grants.

The combined carrying amount of cash in bank at June 30, 2019 and 2018 was $1,047,760 and $798,119 as compared with the combined bank balance of $1,083,253 and $832,716, respectively.

The difference is primarily caused by outstanding checks and items in transit. The bank balances are covered by federal depository insurance up to specified amounts. At June 30, 2019 and 2018, the University was exposed to custodial credit risk of $333,728 and $369,363, respectively for amounts that are uninsured and uncollateralized.

Amounts with the State Treasurer as of June 30, 2019 and 2018, are comprised of two investment pools, the WV Money Market Pool and the WV Short Term Bond Pool, both of which are carried at amortized cost. There was $1,365,305 in FY19 and $936,054 in FY18 of unrestricted cash held for investment.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The following table provides information on the Standard & Poor's rating of the University's portion of the investment pools as of June 30:

	2019		2018	
External Pool	Carrying Value	S & P Rating	Carrying Value	S & P Rating
WV Money Market	$ 6,996,124	AAAm	$ 9,074,185	AAAm
WV Short Term Bond	$ 165,588	Not Rated	$ 210,522	Not Rated

3. CASH AND CASH EQUIVALENTS (CONTINUED)

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

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

	2019		2018	
External Pool	Carrying Amount	WAM (days)	Carrying Amount	WAM (days)
WV Money Market	$ 6,996,124	42	$ 9,074,185	52

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

	2019		2018	
External Pool	Carrying Value	Effective Duration (days)	Carrying Value	Effective Duration (days)
WV Short Term Bond	$ 165,588	723	210,522	358

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

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

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

Interest rate risk is the risk that changes the interest rates will adversely affect the fair value of an investment. The University's investment policy limits investment maturities from potential fair value losses due to increasing interest rates. No more than 5% of the money market fund's total market value may be invested in the obligations of a single issuer, with the exception of the U.S. government and its agencies.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The University has no securities with foreign currency risk.

4. ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2019 and 2018, are as follows:

	2019	2018
Student tuition and fees — net of allowance for doubtful accounts of $517,817 and $710,520 in 2019 and 2018, respectively	$ 338,063	$ 389,602
Grants and contracts receivable	361,527	484,236
Potomac Place Ground Rent and Management operations	463,600	1,007,017
Other	67,238	228,521
	$ 1,230,428	$ 2,109,376

5. CAPITAL ASSETS

Summary of capital assets transactions for the University as of June 30, 2019 and 2018, are as follows:

	2019			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 1,120,925	$ -	$ -	$ 1,120,925
Construction in progress	590,493	623,743	723,323	490,913
Total capital assets not being depreciated	1,711,418	623,743	723,323	1,611,838
Capital assets being depreciated:				
Land improvements	5,738,440	-	-	5,738,440
Land improvements - leased	1,825,416	445,144	825,416	1,445,144
Infrastructure	14,765,965	9,688	-	14,775,653
Buildings	169,711,857	713,635	-	170,425,492
Equipment	15,721,214	823,974	62,951	16,482,237
Library books	4,153,882	65,735	-	4,219,617
Total capital assets being depreciated	211,916,774	2,058,176	888,367	213,086,583
Less accumulated depreciation for:				
Land improvements	2,213,864	360,360	-	2,574,224
Land improvements - leased	901,951	147,276	632,818	416,409
Infrastructure	8,203,409	682,738	-	8,886,147
Buildings	69,566,399	4,040,348	-	73,606,747
Equipment	11,694,548	1,068,563	50,512	12,712,599
Library books	3,686,174	77,588	-	3,763,762
Total accumulated depreciation	96,266,345	6,376,873	683,330	101,959,888
Capital assets being depreciated - net	115,650,429	(4,318,697)	205,037	111,126,695
Total Capital Assets	$ 117,361,847	$ (3,694,954)	$ 928,360	$ 112,738,533

5. CAPITAL ASSETS (CONTINUED)

	2018			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 1,120,925	$ -	$ -	$ 1,120,925
Construction in progress	1,343,185	657,765	1,410,457	590,493
Total capital assets not being depreciated	2,464,110	657,765	1,410,457	1,711,418
Capital assets being depreciated:				
Land improvements	4,512,490	1,225,950	-	5,738,440
Land improvements - leased	1,825,416	-	-	1,825,416
Infrastructure	14,668,576	97,389	-	14,765,965
Buildings	171,221,223	87,119	1,596,485	169,711,857
Equipment	15,153,032	936,735	368,553	15,721,214
Library books	4,070,696	83,186	-	4,153,882
Total capital assets being depreciated	211,451,433	2,430,379	1,965,038	211,916,774
Less accumulated depreciation for:				
Land improvements	1,832,087	381,777	-	2,213,864
Land improvements - leased	780,257	121,694	-	901,951
Infrastructure	7,497,840	705,569	-	8,203,409
Buildings	66,574,850	4,209,295	1,217,746	69,566,399
Equipment	10,913,562	1,133,690	352,704	11,694,548
Library books	3,609,543	76,631	-	3,686,174
Total accumulated depreciation	91,208,139	6,628,656	1,570,450	96,266,345
Capital assets being depreciated - net	120,243,294	(4,198,277)	394,588	115,650,429
Total Capital Assets	$ 122,707,404	$ (3,540,512)	$ 1,805,045	$ 117,361,847

The University maintains various collections of inexhaustible assets to which no value can be determined. Such collections include contributed works of art, historical treasures, and literature that are held for exhibition, education, research, and public service. These collections are neither disposed of for financial gain nor encumbered in any means. Accordingly, such collections are not capitalized or recognized for financial statement purposes.

At June 30, 2019, the University had no significant outstanding contractual commitments for property, plant, and equipment.

6. LONG-TERM LIABILITIES

Summary of long-term obligation transactions for the University for the years ended June 30, 2019 and 2018 are as follows:

	2019				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds, note and capital leases:					
Bonds payable	$ 38,172,915	$ -	$ 1,680,678	$ 36,492,237	$ 1,734,732
Bond premium/discount	33,978	-	2,204	31,774	-
Note payable	525,000	-	150,000	375,000	150,000
Capital lease obligations	322,223	445,144	147,277	620,090	204,416
Total bonds, note and capital leases	39,054,116	445,144	1,980,159	37,519,101	2,089,148
Other long-term liabilities:					
Advances from federal sponsors	403,418	-	361,626	41,792	-
Compensated absences	1,152,340	240,181	39,872	1,352,649	763,107
Net pension liability	266,966	-	28,363	238,603	-
Other postemployment benefits liability	9,006,820	-	751,030	8,255,790	-
Total other long-term liabilities	10,829,544	240,181	1,180,891	9,888,834	763,107
Total long-term liabilities	$ 49,883,660	$ 685,325	$ 3,161,050	$ 47,407,935	$ 2,852,255

	2018				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds, note and capital leases:					
Bonds payable	$ 39,798,098	$ -	$ 1,625,183	$ 38,172,915	$ 1,680,678
Bond premium/discount	36,182	-	2,204	33,978	-
Note payable	675,000	-	150,000	525,000	150,000
Capital lease obligations	467,073	-	144,850	322,223	147,277
Total bonds, note and capital leases	40,976,353	-	1,922,237	39,054,116	1,977,955
Other long-term liabilities:					
Advances from federal sponsors	498,861	-	95,443	403,418	-
Compensated absences	1,189,526	115,110	152,296	1,152,340	737,330
Net pension liability	391,112	-	124,146	266,966	-
Other postemployment benefits liability	11,130,356	-	2,123,536	9,006,820	-
Total other long-term liabilities	13,209,855	115,110	2,495,421	10,829,544	737,330
Total long-term liabilities	$ 54,186,208	$ 115,110	$ 4,417,658	$ 49,883,660	$ 2,715,285

7. CAPITAL LEASES

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

Future annual payments on these capital leases for years subsequent to June 30, 2019, are as follows:

Years Ending June 30,	Principal	Interest	Total
2020	204,416	22,324	226,740
2021	82,606	17,871	100,477
2022	60,276	14,948	75,224
2023	63,290	11,934	75,224
2024	66,455	8,769	75,224
2025	69,779	5,445	75,224
2026	73,268	1,956	75,224
Total	$ 620,090	$ 83,247	$ 703,337

The net book value of capital assets held under the capital lease as of June 30, 2019 and 2018, was $1,028,733 and $923,463, net of accumulated depreciation of $416,410 and $901,953, respectively.

8. NOTE PAYABLE

In September 2016, the University received an interest free loan from the West Virginia Higher Education Policy Commission in the amount of $750,000 for the demolition of the Sara Cree building. This loan is to be paid back in semi-annual payments of $75,000 for the next 5 years.

Future annual payments on the note payable for years subsequent to June 30, 2019, are as follows:

Years Ending June 30,	Principal	Interest	Total
2020	150,000	-	150,000
2021	150,000	-	150,000
2022	75,000	-	75,000
Total	$ 375,000	$ -	$ 375,000

9. BONDS PAYABLE

Bonds payable as of June 30, 2019 and 2018, consisted of the following:

	Interest Rate	Principal Amount Outstanding 2019	Principal Amount Outstanding 2018
Refunding Revenue Bonds, due through 2033	3.00% - 4.375%	4,665,000	5,065,000
Refunding Revenue Bonds, due through 2037	3.65%	31,827,237	33,107,915
		36,492,237	38,172,915
Premium		31,774	33,978
		$ 36,524,011	$ 38,206,893

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

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

On March 8, 2017, the University issued $35.3 million in General Obligation Bonds with a fixed interest rate of 3.65% to advance refund $35.3 million of the remaining outstanding 2005 and 2007 revenue bonds with an average interest rate of 4.5% and to pay the cost of issuance. As a result, both 2005 and 2007 revenue bonds are considered to be defeased and the liability for both of those bonds has been removed from the state of net position.

Summary of the annual aggregate principal and interest payments for years subsequent to June 30, 2019, are as follows:

Years Ending	2013		2017		Total	
June 30	Principal	Interest	Principal	Interest	Principal	Interest
2020	$ 410,000	$ 165,862	$ 1,324,732	$ 1,148,825	1,734,732	1,314,687
2021	420,000	153,563	1,376,643	1,096,756	1,796,643	1,250,319
2022	435,000	140,962	1,427,349	1,045,895	1,862,349	1,186,857
2023	445,000	127,913	1,479,923	993,161	1,924,923	1,121,074
2024	460,000	114,562	1,531,887	941,038	1,991,887	1,055,600
2025-2029	1,280,000	411,131	8,560,275	3,801,605	9,840,275	4,212,736
2030-2034	1,215,000	134,775	10,258,021	2,098,681	11,473,021	2,233,456
2035-2037	-	-	5,868,407	348,171	5,868,407	348,171
Total	$ 4,665,000	$ 1,248,768	$ 31,827,237	$ 11,474,132	$ 36,492,237	$ 12,722,900

10. OTHER POSTEMPLOYMENT BENEFITS

Employees of the University are enrolled in the West Virginia Other Postemployment Benefit Plan (the "OPEB plan") which is administered by the West Virginia Public Employees Insurance Agency ("PEIA") and the West Virginia Retiree Health Benefit Trust Fund (the "RHBT").

Following is the University's other postemployment benefits liability, deferred outflows of resources and deferred inflows of resources related to other postemployment benefits, revenues, and other postemployment benefits expense and expenditures for the fiscal year ended June 30, 2019 (dollars in thousands):

		2019		2018
Net OPEB Liability	$	8,255,790	$	9,006,820
Deferred Outflows of Resources	$	1,133,084	$	798,039
Deferred Inflows of Resources	$	2,139,968	$	1,598,082
Revenues	$	521,542	$	567,909
Expenses	$	211,067	$	453,652
Contributions Made by University	$	775,781	$	798,039

Plan Description

The OPEB plan is a cost-sharing, multiple employer, defined benefit other post-employment benefit plan that covers the retirees of State agencies, colleges and universities, county boards of education, and other government entities as set forth in West Virginia Code Section 5-16D-2 (the "Code"). Plan benefits are established and revised by PEIA and the RHBT with approval of the Finance Board. The Finance Board is comprised of nine members. Finance Board members are appointed by the Governor, serve a term of four years and are eligible for reappointment. The State Department of Administration secretary serves as Chairman of the Board. Four members represent labor, education, public employees and public retirees. Four remaining members represent the public-at-large.

Active employees who retire are eligible for PEIA health and life benefits, provided they meet the minimum eligibility requirements of the applicable State retirement system and if their last employer immediately prior to retirement: is a participating employer under the Consolidated Public Retirement Board ("CPRB") and, as of July 1, 2008 forward, is a participating employer with PEIA. Active employees who, as of July 1, 2008, have ten years or more of credited service in the CPRB and whose employer at the time of their retirement does participate with CPRB, but does not participate with PEIA will be eligible for PEIA retiree coverage provided: they otherwise meet all criteria under this heading and their employer agrees, in writing, upon a form prescribed by PEIA, that the employer will pay to PEIA the non-participating retiree premium on behalf of the retiree or retirees, or that the retiree agrees to pay the entire unsubsidized premium themselves. Employees who participate in non-State retirement systems but that are CPRB system affiliated, contracted, or approved (such as TIAA-CREF and Empower Retirement), or are approved, in writing, by the PEIA Director must, in the case of education employees, meet the minimum eligibility requirements of the State Teachers Retirement System ("STRS"), and in all other cases meet the minimum eligibility requirements of the Public Employees Retirement System to be eligible for PEIA benefits as a retiree.

The financial activities of the OPEB plan are accounted for in the RHBT, a fiduciary fund of the State of West Virginia. The RHBT audited financial statements and actuarial reports can be found on the PEIA website at www.peia.wv.gov.

10. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Benefits Provided

The OPEB plan provides the following benefits: medical and prescription drug insurance and life insurance. The medical and prescription drug insurance is provided through two options: the self-insured preferred provider benefit plan option, which is primarily for non-Medicare-eligible retirees and spouses; and the external managed care organization option, which is primarily for Medicare-eligible retirees and spouses.

Contributions

Pay as you go premiums ("paygo") are established by the Finance Board annually. All participating employers are required by statute to contribute this premium to the RHBT at the established rate for every active policyholder per month. The active premiums subsidize the retirees' health care.

Members retired before July 1, 1997 pay retiree healthcare contributions at the highest sponsor subsidized rate, regardless of their actual years of service. Members retired between July 1, 1997 and June 30, 2010; pay a subsidized rate depending on the member's years of service. Members hired on or after July 1, 2010, pay retiree healthcare contributions with no sponsor provided implicit or explicit subsidy.

Retiree leave conversion contributions from the employer depend on the retiree's date of hire and years of service at retirement as described below:

- Members hired before July 1, 1988 may convert accrued sick or vacation leave days into 100% of the required retiree healthcare contribution.

- Members hired from July 1, 1988 to June 30, 2001 may convert sick or vacation leave days into 50% of the required retiree healthcare contribution.

The conversion rate is two days of unused sick and vacation leave days for one month of single healthcare coverage and three days of unused sick and vacation leave days for one month of family healthcare coverage.

Employees hired on or after July 1, 2001 no longer receive sick and/or vacation leave credit toward the required retiree healthcare contribution when they retire. All retirees have the option to purchase continued coverage regardless of their eligibility for premium credits.

Certain faculty employees (generally those with less than a 12-month contract) earn a similar extended health or life insurance coverage retirement benefit based on years of service. Generally, 3-1/3 years of teaching service extend health insurance coverage for one year of family coverage. Faculty hired after July 1, 2009 no longer receive years of service credit toward insurance premiums when they retire. Faculty hired on or after July 1, 2010 receive no health insurance premium subsidy when they retire. Two groups of employees hired after July 1, 2010 will not be required to pay the unsubsidized rate: 1) active employees who were originally hired before July 1, 2010 who have a break in service of fewer than two years after July 1, 2010; and 2) retired employees who had an original hire date prior to July 1, 2010 may return to active employment. In those cases, the original hire date may apply.

10. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Assumptions

The net OPEB liability for financial reporting purposes was determined by an actuarial valuation as of June 30, 2017, rolled forward to June 30, 2018. The following actuarial assumptions were used and applied to all periods included in the measurement:

- Actuarial cost method: Entry age normal cost method.
- Amortization method and period: Level percentage of payroll over 20 years; closed as of June 30, 2017.
- Investment rate of return: 7.15%, net of OPEB plan investment expense, including inflation.
- Projected salary increases: dependent on pension system ranging from 3.00% to 6.50%, including inflation.
- Healthcare cost trend rates: Actual trend used for fiscal year 2018. For fiscal years on and after 2019, trend starts at 8.50% and 9.75% for pre- and post-Medicare, respectively, and gradually decreases to an ultimate trend of 4.50%. Excess trend rate of 0.14% and 0.29% for pre- and post-Medicare, respectively, is added to healthcare trend rates pertaining to per capita claims costs beginning in 2020 to account for the Excise Tax.
- Inflation rate: 2.75%.
- Discount rate: 7.15%
- Mortality rates: based on RP-2000 Mortality Tables.

The long-term investment rate of return of 7.15% on OPEB plan investments was determined by a combination of an expected long-term rate of return of 7.50% for long-term assets invested with the West Virginia Investment Management Board ("IMB") and an expected short-term rate of return of 3.0% for assets invested with the WV Board of Treasury Investments ("BTI").

Long-term pre-funding assets are invested with the IMB. The strategic asset allocation consists of 55% equity, 15% fixed income, 10% private equity, 10% hedge fund and 10% real estate invested. Short-term assets used to pay current year benefits and expenses are invested with the BTI.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which estimates of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentages and by adding expected inflation. Best estimates of the long-term geometric rates for each major asset class are summarized below.

10. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2010 through June 30, 2015.

Asset Class	Long-term Expected Real Rate of Return
Large Cap Domestic	17.0%
Non-Large Cap Domestic	22.0%
International Qualified	24.6%
International Non-Qualified	24.3%
International Equity	26.2%
Short-Term Fixed	0.5%
Total Return Fixed Income	6.7%
Core Fixed Income	0.1%
Hedge Fund	5.7%
Private Equity	19.6%
Real Estate	8.3%
Opportunistic Income	4.8%
Cash	0.0%

Discount rate. The discount rate used to measure the OPEB liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that RHBT contributions will be made at rates equal to the actuarially determined contribution rates, in accordance with prefunding and investment policies. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. Discount rates are subject to change between measurement dates.

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the University's proportionate share of the net OPEB liability as of June 30, 2019 and 2018 calculated using the discount rate of 7.15%, as well as what the University's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.15%) or one percentage point higher (8.15%) than the current rate (dollars in thousands):

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% increase (8.15%)
Net OPEB Liability as of June 30, 2019	$ 9,703,038	$ 8,255,790	$ 7,049,354
Net OPEB Liability as of June 30, 2018	$ 10,487,408	$ 9,006,820	$ 7,776,038

10. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Sensitivity of the net OPEB liability to changes in healthcare cost trend rates. The following presents the University's proportionate share of the net OPEB liability as of June 30, 2019 and 2018 calculated using the current healthcare cost trend rates, as well as what the University's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current rates (dollars in thousands):

	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Net OPEB Liability as of June 30, 2019	$ 6,831,222	$ 8,255,790	$ 9,991,578
Net OPEB Liability as of June 30, 2018	$ 7,565,857	$ 9,006,820	$ 10,769,198

OPEB Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. The net OPEB liability was measured as of June 30, 2018 and 2017. The total OPEB liability was determined by an actuarial valuation as of June 30, 2017 and rolled forward to the measurement date June 30, 2018.

The University's proportionate share of the net OPEB liability as of June 30, 2019 and 2018 are as follows:

	2019	**2018**
Recognized University Net OPEB Liability	$ 8,255,790	$ 9,006,820
Nonemployer contributing entity's (State of West Virginia) portion of the collective net OPEB liability	1,706,251	1,850,010
Total net OPEB Liability	$ 9,962,041	$ 10,856,830

The allocation percentage assigned to each contributing employer is based on the employer's proportionate share of employer contributions to the RHBT for the fiscal years ended June 30, 2018 and June 30, 2017. Employer contributions are recognized when due. At June 30, 2018 and 2017, the University's proportion was .384807100% and .366281428%, respectively.

The University recognized OPEB expense for the years ended June 30, 2019 and 2018 as follows:

	2019	**2018**
University's proportionate share of OPEB expense	$ 209,334	$ 453,652
OPEB expense attributable to special funding from a nonemployer contributing entity	521,542	567,909
Total OPEB expense	$ 730,876	$ 1,021,561

The University also recognized revenue of $521,542 and $567,909 for support provided by the State for years ended June 30, 2019 and 2018, respectively.

10. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

At June 30, 2019 and 2018, deferred outflows of resources and deferred inflows of resources related to OPEB are as follows:

	2019	2018
Deferred Outflows of Resources		
Changes in proportion and difference between employer contributions and proportionate share of contributions	$ 357,303	$ -
Contributions after the measurement date	775,781	798,039
Total Deferred Outflows of Resources	$ 1,133,084	$ 798,039
Deferred Inflows of Resources		
Changes in proportion and difference between employer contributions and proportionate share of contributions	$ 1,040,708	$ 1,424,168
Net difference between projected and actual investment earnings	152,813	143,755
Changes in assumptions	824,328	-
Differences between expected and actual experience	122,119	30,159
Total Deferred Inflows of Resources	$ 2,139,968	$ 1,598,082

The University will recognize the $775,781 reported as deferred outflows of resources resulting from OPEB contributions after the measurement date as a reduction of the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ended	Amortization
June 30, 2020	$ 594,705
June 30, 2021	594,705
June 30, 2022	482,680
June 30, 2023	110,575
	$ 1,782,665

11. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

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

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

11. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS (CONTINUED)

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

Debt service assessed for the years ending June 30, 2019 and 2018 are as follows:

	2019	2018
Fees assessed by the Commission for debt service	$ 18,574	$ 18,303

12. UNRESTRICTED COMPONENTS OF NET POSITION

The University did not have any board designated unrestricted components of net position as of June 30, 2019 or 2018.

	2019	2018
Total unrestricted net position before OPEB and net pension liability	$ 2,814,172	$ 5,380,972
Less Net pension liability	(238,603)	(266,966)
Less OPEB liability	(8,255,790)	(9,006,820)
Total unrestricted component of net position	$ (5,680,221)	$ (3,892,814)

13. DEFINED CONTRIBUTION PLANS

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

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

13. DEFINED CONTRIBUTION PLANS (CONTINUED)

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

The total contributions that the University was required to contribute to the TIAA-CREF for the years ended June 30, 2019, 2018, and 2017, were $2,609,001, $2,120,386, and $2,622,058, respectively, which consisted of approximately equal contributions from the University and covered employees in 2019, 2018, and 2017 of $1,306,297, $1,063,404, and $1,312,206, respectively.

The total contributions that the University was required to contribute to the Great West for the years ended June 30, 2019, 2018, and 2017, were $148,394, $81,847, and $96,788, respectively, which consisted of equal contributions from the University and the covered employee in 2019, 2018, and 2017 of $75,117, $41,241, and $48,394, respectively.

The University's total payroll for the years ended June 30, 2019 and 2018 was $26,256,095 and $26,695,420, respectively, and total covered employees' salaries in TIAA-CREF and Great West were, $21,729,861 and $1,221,422 in 2019, and $17,723,397 and $687,347 in 2018, respectively.

14. DEFINED BENEFIT PENSION PLAN

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

Following is the University's pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, revenues, and the pension expense and expenditures for the fiscal years ended June 30, 2019 and 2018:

	2019	2018
Net Pension Liability	$ 238,603	$ 266,966
Deferred Outflows of Resources	$ 46,992	$ 49,257
Deferred Inflows of Resources	$ 136,634	$ 200,261
Revenues	$ 56,708	$ 60,136
Pension Expense	$ (51,746)	$ (45,467)
Contributions Made by Shepherd	$ 36,597	$ 35,214

14. DEFINED BENEFIT PENSION PLAN (CONTINUED)

TRS

Plan Description

TRS is a multiple employer defined benefit cost sharing public employee retirement system providing retirement benefits as well as death and disability benefits. It covers all full-time employees of the 55 county public school systems in the State of West Virginia (the State) and certain personnel of the 13 State-supported institutions of higher education, State Department of Education and the Higher Education Policy Commission hired prior to July 1, 1991. Employees of the State-supported institutions of higher education and the Higher Education Policy Commission hired after June 30, 1991, are required to participate in the Higher Education Retirement System. TRS closed membership to new hires effective July 1, 1991.

TRS is considered a component unit of the State of West Virginia for financial reporting purposes, and, as such, its financial report is also included in the State of West Virginia's Comprehensive Annual Financial Report. TRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained from the TRS website at
https://www.wvretirement.com/Publications.html#CAFR

Benefits Provided

TRS provides retirement, death, and disability benefits. A member is eligible for normal retirement at age 60 with five years of service, age 55 with 30 years of service or any age with 35 years of service. A member may retire with 30 years of credited service at any age with the pension reduced actuarially if the member retires before age 55. Terminated members with at least five, but less than 20, years of credited service who do not withdraw their accumulated contributions are entitled to a deferred retirement commencing at age 62. Retirement benefits are equivalent to 2% of average annual salary multiplied by years of service. Average salary is the average of the 5 highest fiscal years of earnings during the last 15 fiscal years of earnings. Chapter 18, Article 7A of the West Virginia State Code assigns the authority to establish and amend the provisions of the plan, including contribution rates, to the State Legislature.

Contributions

The funding objective of the CPRB pension trust funds is to meet long-term benefit requirements through contributions, which remain relatively level as a percent of member payroll over time, and through investment earnings. Contribution requirements are set by CPRB. A member who withdraws from service for any cause other than death or retirement may request that the accumulated employee contributions plus interest be refunded.

Member Contributions: TRS funding policy provides for member contributions based on 6% of members' gross salary. Contributions as a percentage of payroll for members and employers are established by State law and are not actuarially determined.

14. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Employer Contributions: Employers make the following contributions:

The State (including institutions of higher education) contributes:

1. 15% of gross salary of their State-employed members hired prior to July 1, 1991;
2. 15% of School Aid Formula (SAF) covered payroll of county-employed members;
3. 7.5% of SAF-covered payroll of members of the TDCRS;
4. a certain percentage of fire insurance premiums paid by State residents; and
5. under WV State code section 18-9-A-6a, beginning in fiscal year 1996, an amount determined by the State Actuary as being needed to eliminate the TRS unfunded liability within 40 years of June 30, 1994. The University's proportionate share attributable to this special funding subsidy was $57,241 and $66,128 as of June 30, 2019 and 2018, respectively.

The University's contributions to TRS for the years ended June 30, 2019, 2018, and 2017, were approximately $36,597, $35,214, and $34,322, respectively.

Assumptions

The total pension liabilities for financial reporting purposes were determined by actuarial valuations as of June 30, 2017 and rolled forward to June 30, 2018. The following actuarial assumptions were used and applied to all periods included in the measurement:

- Actuarial cost method: Entry age normal cost with level percentage of payroll.
- Asset valuation method: 4-year 25% level smoothing of actuarial gain or (loss) on trust fund return
- Amortization method and period: Level dollar, fixed period over 40 years, from July 1, 1994 through fiscal year 2034.
- Investment rate of return of 7.50%, net of pension plan administrative and investment expenses.
- Projected salary increases: Teachers 3.00–6.00% and non-teachers 3.00–6.50%, based on age.
- Inflation rate of 3.0%.
- Discount rate of 7.50%
- Mortality rates based on RP-2000 Non-Annuitant Tables.
- Withdrawal rates: Teachers 0.8-35.0% and non-teachers 1.316-24.75%.
- Disability rates: 0.006-0.704%
- Retirement age: An age-related assumption is used for participants not yet receiving payments.
- Retirement rates: 15-100%
- *Ad hoc* cost-of-living increases in pensions are periodically granted by the State Legislature. However, the retirement system makes no automatic provision for such increases.

Experience studies are performed at least once in every five-year period. The most recent experience study covered the period from July 1, 2005 to June 30, 2010. These assumptions will remain in effect for valuation purposes until such time as the CPRB adopts revised assumptions.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

14. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Best estimates of the long-term arithmetic real rates of return for each major asset class included in TRS' target asset allocation as of June 30, 2018, are summarized below.

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
Domestic	4.5%	27.5%
International Equity	8.6%	27.5%
Fixed Income	3.3%	15.0%
Real Estate	6.0%	10.0%
Private Equity	6.4%	10.0%
Hedge Funds	4.0%	10.0%

Discount rate. The discount rate used to measure the total TRS pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that State contributions will continue to follow the current funding policy. Based on those assumptions, TRS fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on TRS' investments was applied to all periods of projected benefit payments to determine the total pension liability. In the event of benefit payments that are not covered by the pension plan's fiduciary net position, a municipal bond rate of 3.66% is to be used to discount the benefit payments not covered by the plan's fiduciary net position. The rate equals the S&P Municipal Bond 20 Year High Grade Rate Index at June 30, 2018.

Sensitivity of the net pension liability to changes in the discount rate. The following presents the University's proportionate share of the TRS net pension liability as of June 30, 2019 and 2018 calculated using the discount rate of 7.50%, as well as what the University's TRS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate (dollars in thousands).

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability as of June 30, 2019	$ 322,070	$ 238,603	$ 167,244
Net Pension Liability as of June 30, 2018	$ 351,472	$ 266,966	$ 194,761

14. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. The TRS net pension liability was measured as of June 30, 2018 and 2017. The total pension liability was determined by an actuarial valuation as of June 30, 2017 and rolled forward to the measurement date June 30, 2018.

The University's proportionate share of the TRS net pension liability as of June 30, 2019 and 2018 are as follows:

	2019	2018
Recognized University Net Pension Liability	$ 238,603	$ 266,966
University's proportionate share of net pension liability due to special funding situation	618,206	590,374
Total University Proportionate Share of TRS Net Pension Liability	$ 856,809	$ 857,340

The allocation percentage assigned to each participating employer and non-employer contributing entity is based on their proportionate share of employer and non-employer contributions to TRS for each of the fiscal years ended June 30, 2018 and 2017. Employer contributions are recognized when due. At June 30, 2018 and 2017, the University's proportion was 0.007642% and 0.007727%, respectively.

The University recognized TRS pension expense for the years ended June 30, 2019 and 2018 as follows:

	2019	2018
University's porportionate share of TRS expense	$ (106,311)	$ (102,708)
Pension expense attributable to special funding from a non-employer contributing entity	54,565	57,241
Total TRS pension expense	$ (51,746)	$ (45,467)

The University also recognized revenue of $56,708 and $60,136 for support provided by the State for years ended June 30, 2019 and 2018, respectively.

14. DEFINED BENEFIT PENSION PLAN (CONTINUED)

At June 30, 2019, deferred outflows of resources and deferred inflows of resources related to the TRS pension are as follows:

	2019	2018
Deferred Outflows of Resources		
Differences between expected and Actual Experience	$ 1,716	$ 2,321
Changes in Proportion and difference between employer contributions and proportinate share of contributions	1,265	1,693
Changes in assumptions	7,414	10,029
Contributions after the measurment date	36,597	35,214
Total Deferred Outflows of Resources	$ 46,992	$ 49,257
Deferred Inflows of Resources		
Changes in Proportion and difference between employer contributions and proportinate share of contributions	$ 119,402	$ 187,115
Net difference between projected and actual investment earnings	12,422	8,391
Differences between expected and actual experience	4,810	4,755
Total Deferred Inflows of Resources	$ 136,634	$ 200,261

The University will recognize the 2019 pension contributions of $36,597 as a reduction of the TRS net pension liability in the year ended June 30, 2019. Other 2019 amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in TRS pension expense as follows:

Fiscal Year Ended	Amortization
June 30, 2020	(61,666)
June 30, 2021	(29,050)
June 30, 2022	(20,156)
June 30, 2023	(15,367)
	$ (126,239)

Payables to the pension plan

The University did not report any amounts payable for normal contributions to the TRS as of June 30, 2019 and 2018.

15. FOUNDATION

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

Based on the Foundation's audited financial statements as of June 30, 2019 and 2018, the Foundation's net assets (including unrealized gains) totaled $29,173,707 and $28,460,540, respectively. Complete financial statements of the Foundation can be obtained from The Shepherd University Foundation, Incorporated, P.O. Box 3210, Shepherdstown, West Virginia 25443-3210.

During the years ended June 30, 2019 and 2018, the Foundation contributed $1,989,546 and $1,646,489, respectively, to the University for scholarships and awards.

16. AFFILIATED ORGANIZATION

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

17. COMMITMENTS AND CONTINGENCIES

Leases

The University executed an operating lease agreement for the Martinsburg Center campus at 261 Aikens Center, Martinsburg, West Virginia in 2014. The lease agreement includes scheduled rent increases over the term of the lease, which will be recognized on a straight-line basis over the term of the lease. The lease expires June 2023. Rental expense under the operating lease was $113,004 and $118,405 for the years ended June 30, 2019 and 2018, respectively. The rent expense is included in supplies and other services (Instruction) in the accompanying statements of revenues, expenses, and changes in net position. Starting July 2018, the University will be reducing the amount of square footage they will be leasing at the Martinsburg Center from 15,811 square feet to 7,346, thus causing future rent expense to be reduced.

17. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

	Leases
2020	114,699
2021	118,140
2022	121,684
2023	125,335
Total minimum lease payments	$ 479,858

Claims

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

Federal Contracts

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

Arbitrage

The Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates. There are no arbitrage rebate liabilities as of June 30, 2019 or 2018.

Building Codes

The University owns various buildings that are known to contain asbestos. The University is not required by federal, state, or local law to remove the asbestos from its buildings. The University is required under federal environmental, health, and safety regulations to manage the presence of asbestos in its buildings in a safe condition. The University addresses its responsibility to manage the presence of asbestos in its buildings on a case-by-case basis. Significant problems of dangerous asbestos conditions are abated as the condition becomes known. The University also addresses the presence of asbestos as building renovation or demolition projects are undertaken and through asbestos operation and maintenance programs directed at containing, managing, or operating with the asbestos in a safe condition.

17. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Risk Management

The University is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The University carries commercial insurance to insure against major loss related to these risks. The University also carries commercial insurance for employee health, long-term disability, life, and workers compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage. There have been no significant reductions in insurance coverage or any settled claims that have exceeded the amount of the coverage in any of the past three years.

18. POTOMAC PLACE

Completion of the Potomac Place residence hall occurred in July, 2017 and became available for student housing in the Fall Semester of 2017. This 300-bed student housing facility, including the buildings, furniture, fixtures, machinery and equipment and related facilities is subject to a Ground Lease Agreement between the University and the Shepherd University Foundation Supporting Organization (SUFSO), where the University is the "Lessor" and the SUFSO is the "Lessee" and a Management Agreement exists between the two entities with the University fulfilling the duties of the "Manager" and the SUFSO.

The Ground Lease Agreement will expire upon the repayment of all associated outstanding debt borrowed by the Supporting Organization, scheduled for full repayment in approximately forty (40) years. Upon the expiration of the lease, the building and associated equipment and furnishings will be transferred to Shepherd University. The ground lease agreement requires annual rental payments due 30 days after the receipt of the audited financial statements of the SUFSO, beginning in June, 2018. For the years ending June 30, 2019 and 2018, total ground rent due from SUFSO was $417,192 and $1,007,017, respectively.

In the Management Agreement, the SUFSO appoints the University as its exclusive agent for the construction, operation, management and maintenance of the Project and the University accepts the appointment, subject to the terms and conditions set forth in this Agreement. The University agrees to comply with the terms and conditions of the Ground Lease; and the University agrees to use its commercially reasonable efforts to manage the Project in accordance with the provisions of the Ground Lease applicable to the operation, use, management, repair, and modification of the Project.

19. SEGMENT INFORMATION

Condensed statements of net position as of June 30, 2019 and 2018:

	Refunding Revenue Bonds 2013		Refunding Revenue Bonds 2017	
	2019	2018	2019	2018
Assets:				
Current assets	$ 3,606,445	$ 4,049,283	$ 5,086,880	$ 7,103,646
Noncurrent assets	7,161,202	7,345,410	36,776,524	37,556,789
Total assets	$ 10,767,647	$ 11,394,693	$ 41,863,404	$ 44,660,435
Liabilities:				
Current liabilities	$ 532,776	$ 493,006	$ 2,055,925	$ 2,422,978
Noncurrent liabilities	4,286,774	4,698,978	30,502,505	31,827,237
Total liabilities	4,819,550	5,191,984	32,558,430	34,250,215
Net position:				
Net investment in capital assets	2,464,428	2,246,430	4,933,586	4,429,215
Restricted:				
Unrestricted	3,483,669	3,956,279	4,371,388	5,981,005
Total net position	5,948,097	6,202,709	9,304,974	10,410,220
Total net position and liabilities	$ 10,767,647	$ 11,394,693	$ 41,863,404	$ 44,660,435

Condensed statements of revenues, expenses, and changes in net position for the years ended June 30, 2019 and 2018:

	Refunding Revenue Bonds 2013		Refunding Revenue Bonds 2017	
	2019	2018	2019	2018
Operating:				
Operating revenues	$ 2,362,156	$ 2,473,982	$ 12,351,228	$ 14,029,739
Operating expenses	(2,625,667)	(642,423)	(12,468,467)	(14,416,284)
Net operating income	(263,511)	1,831,559	(117,239)	(386,545)
Nonoperating:				
Nonoperating revenues	201,036	184,594	207,126	183,108
Nonoperating expenses	(192,137)	(202,267)	(1,195,134)	(1,240,212)
Net nonoperating loss	8,899	(17,673)	(988,008)	(1,057,104)
Increase (decrease) in net assets	(254,612)	1,813,886	(1,105,247)	(1,443,649)
Net position — beginning of year	6,202,709	4,388,823	10,410,220	11,853,869
Net position — end of year	$ 5,948,097	$ 6,202,709	$ 9,304,973	$ 10,410,220

Condensed statements of cash flows for the years ended June 30, 2019 and 2018:

	Refunding Revenue Bonds 2013		Refunding Revenue Bonds 2013	
	2019	2018	2019	2018
Net cash provided by (used in) operating activities	$ 2,337,926	$ 1,867,923	$ 1,440,814	$ 1,098,289
Net cash used in capital and related financing	(2,772,238)	(960,704)	(3,358,393)	(3,902,541)
Net cash provided by (used in) \investing activities	-	-	-	-
Increase (decrease) in cash and cash equivalents	(434,312)	907,219	(1,917,579)	(2,804,252)
Cash and cash equivalents — beginning of year	3,788,414	2,881,195	6,865,682	9,669,934
Cash and cash equivalents — end of year	$ 3,354,102	$ 3,788,414	$ 4,948,103	$ 6,865,682

20. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2019 and 2018, the following represents operating expenses within both natural and functional classifications:

2019	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Fees Assessed by the Commission	Total
Instruction	$ 13,729,981	$ 2,865,378	$ 1,342,971	$ 4,509	$ -	$ -	$ -	$ 17,942,839
Research	264,188	40,914	79,191	-	-	-	-	384,293
Public service	161,783	30,997	29,755		-	-	-	222,535
Academic support	1,843,992	353,341	978,563	931	-	-	-	3,176,827
Student services	2,302,590	537,425	658,119	328	-	-	-	3,498,462
General institutional support	3,007,155	1,034,794	2,203,672		-	-	-	6,245,621
Operations and maintenance of plant	1,515,362	419,302	1,055,873	1,939,248	-	-	-	4,929,785
Student financial aid	-	-	-	-	2,488,604	-	-	2,488,604
Auxiliary enterprises	3,431,044	749,326	5,002,699	1,639,741	-	-	-	10,822,810
Depreciation	-	-	-	-	-	6,376,873	-	6,376,873
Other	-	-	-	-	-	-	-	-
Total	$ 26,256,095	$ 6,031,477	$ 11,350,843	$ 3,584,757	$ 2,488,604	$ 6,376,873	$ -	$ 56,088,649

2018	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Fees Assessed by the Commission	Total
Instruction	$ 13,461,874	$ 2,557,802	$ 1,659,687	$ 4,473	$ -	$ -	$ -	$ 17,683,836
Research	158,624	18,100	75,725	-	-	-	-	252,449
Public service	130,513	19,645	46,208		-	-	-	196,366
Academic support	1,805,006	303,144	909,276	1,163	-	-	-	3,018,589
Student services	2,180,238	434,096	773,522	788	-	-	-	3,388,644
General institutional support	3,024,815	1,668,293	2,261,342	331	-	-	-	6,954,781
Operations and maintenance of plant	1,544,846	354,751	1,488,590	1,914,784	-	-	-	5,302,971
Student financial aid	-	-	-	-	2,236,855	-	-	2,236,855
Auxiliary enterprises	4,389,504	852,059	5,614,184	1,632,011	-	-	-	12,487,758
Depreciation	-	-	-	-	-	6,628,656	-	6,628,656
Other	-	-	-	-	-	-	242,126	242,126
Total	$ 26,695,420	$ 6,207,890	$ 12,828,534	$ 3,553,550	$ 2,236,855	$ 6,628,656	$ 242,126	$ 58,393,031

21. COMPONENT UNIT'S DISCLOSURES

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Principles

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

Nature of Operations and Program Activities

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

Basis of Accounting

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

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

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

Net Assets

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

Net Assets Without Donor Restriction

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

Nets Assets With Donor Restriction

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

Investments

The Foundation accounts for its investments in accordance with 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.

Dormitory Revenue, Accounts Receivable and Deferred Revenues

Revenues related to the operation of the dormitory are recognized in the period the related housing and services are provided. To the extent applicable, deferred revenue is recognized for any advanced payments received from students and others prior to the period of the rental. Accounts receivable primarily represents amounts due for dormitory rentals that occurred prior to the financial statement date. Management determines an allowance for doubtful accounts by regularly evaluating the individual receivables and considering the student's financial condition and payment history.

Receivables are written off when deemed uncollectible. As of June 30, 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:

	Years
Office equipment	3-7
Dormitory building and improvements	40
Dormitory 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 in 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.

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.

Concentrations of Credit Risk

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

Statement of Cash Flows

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

Risks

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

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

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.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In February 2016, FASB issues ASU 2016-02, Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. The new standard is effective for the Foundation starting July 1, 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 the standard will have on the financial statements.

NOTE 2 RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash includes cash and cash equivalents held in demand accounts at financial institutions or brokerage firms that are associated with custodial liabilities or restricted funds held within the organization. Also, in connection with the USDA loan discussed in Note 9, commencing in February 2018, the Foundation is required maintain a debt service reserve account and property replacement reserve account. The Foundation is required to make monthly deposits of at least $7,685 to the debt service reserve account until the account balance reaches $922,092. The Foundation also must make monthly deposits 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	2,858,475	3,633,726
Unrestricted cash	26,259	975,846
Total cash and cash equivalents	$ 2,884,734	$ 4,609,572

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 temporarily and permanently restricted net assets. These unconditional promises to give are scheduled to be received by the Foundation over the next several years and are considered to be fully collectible.

NOTE 3 PLEDGES RECEIVABLE (CONTINUED)

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

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	1,724,990	2,297,894
Investment Securities	$ 22,098,492	$ 25,857,543
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	1,465,935	1,984,237
Investment Securities	$ 20,355,708	$ 23,450,031

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.

NOTE 4 INVESTMENTS (CONTINUED)

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
	$ 200,202	$ 95,453	$ 104,749
2018			
Land	$ 40,000	$ -	$ 40,000
Building	160,202	91,448	68,754
	$ 200,202	$ 91,448	$ 108,754

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
	$ 25,962,292	$ 23,558,785

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

NOTE 5 INTEREST LIFE ESTATE (CONTINUED)

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 permanently restricted net assets 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
Dormitory building and improvements	20,082,300	20,082,300
Dormitory furniture and fixtures	1,012,802	1,012,802
	21,117,401	21,117,401
Less: accumulated depreciation	(1,364,347)	(655,402)
Net Book Value	$ 19,753,054	$ 20,461,999

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.

NOTE 7 CUSTODIAL LIABILITIES

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

NOTE 7 CUSTODIAL LIABILITIES (CONTINUED)

The gross receipts and disbursements for the custodial accounts, and the interest and gains 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	7,758	5,455
Net Decrease in Custodial Liabilities	$ (58,092)	$ (316,195)

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.

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

maintain and make monthly deposits into a debt service reserve bank account and property replacement reserve bank account.

The carrying value of the collateral securing the above loans was $20,449,203 and $18,927,071 at June 30, 2019 and 2018, respectively. Total interest capitalized during the construction period of the student housing facility project amounted to $311,669 and $273,301 at June 30, 2019 and 2018, respectively.

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	(48,762)	(26,582)
	$ 21,418,621	$ 21,740,990

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	19,833,531
	$ 21,467,383

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.

NOTE 10 NET ASSETS WITH DONOR RESTRICTIONS

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

	2019	2018
Restricted for a specific purpose:		
Scholarhsips, awards and college support	$ 9,555,753	$ 8,966,328
Restricted in perpetuity:		
Endownment funds	21,383,830	20,718,853
	$ 30,939,583	$ 29,685,181
Assets:		
Cash and cash 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
	$ 30,939,583	$ 29,685,181

NOTE 11 ENDOWMENTS

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

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

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

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 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		(658,009)
Endowment Net Assets at June 30, 2018	$	22,219,574
Net investment return		999,943
Contributions		865,984
Transfers of funding with the Foundation		(516,901)
Appropriations of endowment assets for expenditure		(582,180)
Endowment Net Assets at June 30, 2019	$	22,986,420

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.

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

	Assets at Fair Value			
	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

NOTE 14 FAIR VALUE MEASUREMENTS (CONTINUED)

	Assets at Fair Value			
	Total	Level 1	Level 2	Level 3
2018				
Pledges Receivable	$ 3,112,047	$ -	$ -	$ 3,112,047
Government Securities				
US Treasuries	803,997	803,997	-	-
Agency Securities	140,581	-	140,581	-
Municipal Bonds	86,681	-	86,681	-
Mortgage Pools	260,664	-	260,664	-
Corporate Bonds	1,424,281	-	1,424,281	-
Mutual Funds				
US Large Cap	4,161,937	4,161,937	-	-
US Small and Mid-Cap	2,350,392	2,350,392	-	-
International Equity	2,732,047	2,732,047	-	-
US Short-Term Bond	300,621	300,621	-	-
International Fixed Income	699,029	699,029	-	-
High-Yield Bond	510,217	510,217	-	-
REITs	596,099	596,099	-	-
Options-Based Equity	35,112	35,112	-	-
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 Asets at Fair Value	$ 25,877,450	$ 19,870,393	$ 1,912,207	$ 3,112,047

(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	$	2,807,445
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	$	3,112,047

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.

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 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.

Rental payments will equal the net available cash flow generated from the student housing facility project. Rent expense due to Shepherd University for the ground lease amounted to $382,050 and $965,782 for the years ended June 30, 2019 and 2018, respectively.

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

The dorm room rental fee rates, number of students served per semester and total fees collected on student dorm room rentals are noted below for the years ending 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 Dorm Room Revenue During School Year	$ 1,891,560	$ 1,824,108
Dorm Rental for Summer Conferences	56,298	27,330
Rental Revenue for SU for Food Market	32,400	27,990
Late Fees and Fees for Damages	-	8,433
Less: Student Dorm Room Waivers	(52,402)	(49,498)
Total Dorm Room Rental for Fiscal Year	$ 1,927,856	$ 1,838,363
Total Cash Collected on Current Year Accounts	$ 1,896,521	$ 1,803,183

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 are as follows:

	Program Activies			Support Activities	
	Scholarships and College Support	Dormitory Operations	Total Program Expense	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
Utilties	-	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 expense	-	-	-	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

NOTE 17 FUNCTIONAL EXPENSES (CONTINUED)

	Program Activities			Support Activities	
	Scholarships and College Support	Dormitory Operations	Total Program Expense	General and Administrative Expenses	Total
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 manintenance	-	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

NOTE 18 LIQUIDITY AND AVAILABILITY OF RESOURCES

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

	2019
Cash and cash equivalents (undesignated)	$ 26,259
Accounts receivable	31,422
Due from Shepherd University	35,028
	$ 94,728

NOTE 18 LIQUIDITY AND AVAILABILITY OF RESOURCES (CONTINUED)

The Foundation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Foundation has various sources of liquidity at its disposal, including 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 requires 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 the 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 to the students, facilities and programs of Shepherd University, and the Supporting Organization considered all expenditures related to its ongoing activity of operating the Potomac Place dormitory, as well as the types of services undertaken to support these activities, to be general expenditures.

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

NOTE 19 DEFICIT OF UNDESIGNATED NET ASSETS WITHOUT DONOR RESTRICTION

The deficit in undesignated net assets without donor restrictions of the Foundation is primarily the result of cumulative unrealized and realized losses not being allocated as a reduction to net assets with donor restriction in fiscal years prior to 2018 as well as scholarship disbursements from funds in excess of expenses over revenues generated from the Potomac Place student facility project has contributed to the net assets without donor restriction deficit. In order to reduce the deficit and generate positive net assets without donor restriction, the Foundation will need to generate gains on their investments for consecutive years, reduce the level of annual fund disbursements, reduce operating expenses or generate revenues from another outside source. The balance of net assets without donor restriction deficit was $(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 to the Shepherd University 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

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULES OF PROPORTIONATE SHARE AND CONTRIBUTIONS

1. NET PENSION LIABILITY

Schedule of Proportionate Share

Measurement Date	University's Proportionate Share as a percentage of Net Pension Liability	University's Proportionate Share	State's Proportionate Share	Total Proportionate Share	University's Covered Employee Payroll	Unversity's Proportionate Share as a percentage of Covered Payroll	University's Plan Fiduciary Net Position as a percentage of Total Pension Liability
June 30, 2014	0.01302%	$ 449,352	$ 1,015,266	$ 1,464,618	$ 486,027	92.45412%	65.95%
June 30, 2015	0.00945%	$ 327,328	$ 692,199	$ 1,019,527	$ 375,501	87.17101%	66.25%
June 30, 2016	0.00952%	$ 391,112	$ 744,964	$ 1,136,076	$ 478,614	81.71763%	61.42%
June 30, 2017	0.00773%	$ 266,966	$ 590,374	$ 857,340	$ 271,237	98.42536%	67.85%
June 30, 2018	0.00764%	$ 238,603	$ 618,206	$ 856,809	$ 111,355	214.27237%	71.20%

Schedule of Employer Contributions of TRS

Measurement Date	Actuarily Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contributions as a percentage of Covered Payroll
June 30, 2014	$ 59,257	$ 59,998	$ (741)	$ 486,027	12.34458%
June 30, 2015	$ 42,953	$ 42,953	$ (0)	$ 375,501	11.43885%
June 30, 2016	$ 36,894	$ 36,894	$ -	$ 478,614	7.70851%
June 30, 2017	$ 31,988	$ 34,322	$ (2,334)	$ 271,237	12.65388%
June 30, 2018	$ 33,914	$ 35,214	$ (1,300)	$ 111,355	31.62319%

2. NET OPEB LIABILITY

Schedule of Proportionate Share

Measurement Date	University's Proportionate Share as a Percentage of Net OPEB	University's Proportionate Share	State's Proportionate Share	Total Proportionate Share	University's Covered Payroll	University's Proportionate Share as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total OPEB Liability
June 30, 2017	0.36628143%	$ 9,006,820	$ 1,850,010	$ 10,856,830	$ 8,054,749	111.82%	25.10%
June 30, 2018	0.36628143%	$ 8,255,790	$ 1,706,251	$ 9,962,041	$ 7,890,987	104.62%	30.98%

Schedule of Contributions

Measurement Date	Actuarily Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Acutal Contributions as a Percentage of Covered Payroll
June 30, 2017	$ 752,336	$ 752,336	$ -	$ 8,054,749	9.34%
June 30, 2018	$ 786,351	$ 798,039	$ (11,688)	$ 7,890,987	10.11%

Notes to Required Supplementary Information

For the Year Ended June 30, 2019

There are no factors that affect trends in the amounts reported, such as change of benefits terms or assumptions. Information, if necessary, can be obtained from the CPRB Comprehensive Annual Financial Report and the West Virginia Retiree Health Benefit Trust Fund Annual Financial Report.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Governors
Shepherd University
Shepherdstown, West Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of Shepherd University (the University), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 15, 2019. Our report includes a reference to other auditors who audited the financial statements of Shepherd University Foundation, Inc., as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of Shepherd University Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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 audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Governors
Shepherd University

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
October 15, 2019

APPENDIX D: Shepherd University Board of Governors Finance Quarterly Reports FY 18, 19

Shepherd University Board of Governors
December 14, 2017
Agenda Item No. 9

QUARTERLY FINANCIAL REPORT – 1ST QUARTER FY2018

Ms. Pam Stevens, Interim Vice President for Finance, will present the quarterly financial report.

Financial results are provided in the following three reports for 1st quarter of FY2018:

1) Statement of Net Position
2) Budget to Actual Report
3) State of Revenues Expenses and Other Changes (shows a year-to-year comparison with FY2017)

Overview of Comparison – with considerations below: 1st Quarter FY2018 compared to 1st Quarter FY2017

- 10.7%, $2 million, decrease in Total Operating Revenues
- 5.7%, $757,000, decrease in Total Operating Expenses
- 9.8%, $1 million, decrease in Net Position
- 11.7%, $2.4 million, decrease in Cash and Cash Equivalents
- 870%, $966,000, increase in Deferred Revenue due to Potomac Place

Considerations:

Comparing financial results to budget provides a more accurate look at performance for the current fiscal year. While we traditionally compare results to the same period of the prior fiscal year, it is important to recognize that our landscape is changing.

For example, the addition of Potomac Place is likely the first of many major departures from operations of previous years. The revenue from this outstanding new housing arrangement resides with the Supporting Organization of the Foundation (SUFSO).

This reduces Shepherd's housing/auxiliary revenues and related expenses. The University will experience a new source of revenue as the managing entity, and will receive payment of ground lease rent in the form of a substantial residual sum of cash from the SUFSO at year-end.

Should additional outsourcing options become reality; a further variance of year-over-year operational results will be a certainty.

STATEMENT OF NET POSITION

Assets

Total Assets: Decreased approximately **4.68%** to **$148 million**. Significant changes in assets from the prior year include a decrease in Cash, decrease in Grants and Contracts Receivable and a decrease in Capital Assets, net of accumulated depreciation. The largest decrease resulted from the strategic decision to delay capital projects. Therefore, the depreciation reduced the net value of existing assets.

Cash and Cash Equivalents: At the end of 1st Quarter FY2018, the University had sufficient cash and other resources on hand to meet operating and capital requirements. The Days Cash on Hand at the end of this period was **142** days, which reflects the timing of the startup of the academic year bringing significant amounts of cash into the University.

Cash balances **decreased** from 1st Quarter FY2017 to 1st Quarter FY2018 by **11.7%** to **$18.1 million**.

While the enrollment for first-time students increased in the Fall semester, and the rate of decline has stabilized, overall enrollment continued to be down, causing a decline in Tuition and Fees and Auxiliary Enterprises revenue generated.

State Appropriations in FY2018 are **down $48,000** resulting from the FY2017 **2.0%** mid-year reduction (**$12,000/quarter**).

In addition, approximately **$900,000** is due the SUSFO for Potomac Place.

Cash **increased** from FY2017 year-end by **3.5 million** from **14.6 million to 18.1 million.**

Capital Assets Net: Capital Assets are presented net of Accumulated Depreciation and decreased **$4.3 million** to **$121.6 million**.

In the continuing effort to preserve cash flow, the University has strategically delayed some major capital expenditures.

Accumulated Depreciation for the quarter was **$1.7 million**.

Liabilities

Total Liabilities: Decreased **.92%** to **$58.6 million**. Significant changes include decreases in Accounts Payable, and Accrued Liabilities and Bonds/Leases Payable. Increases were in Deferred Revenue and Other Post-Employment Benefits (OPEB).

Accounts Payable: Accounts Payable decreased from **$1.4 million** to **$1.1 million**. This corresponds to the reduction in operating expenditures and an increase in Pcard usage. Utilization of the Pcard results in posting purchase amounts at the time of sale, producing a lower liability in Accounts Payable. Pcard holders are required to adhere to strict guidelines, ensuring proper and allowable transactions.

Deferred Revenue: Deferred Revenue increased **$966,000** due to Potomac Place. All revenues generated by Potomac Place are owed to SUSFO.

Bonds/Leases Payable: Bonds and Leases Payable continue to **decline** due to the **payment of principle** and **lack of additional debt**. The **refinancing of the 2005 and 2007 bonds** in **spring 2017** has also allowed for the reduction in long-term debt.

STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES

Operating Revenues

The University continues to have a decline in operating revenues year-over-year.

Operating Revenues are **down 10.7%, $2 million** compared to 1st Quarter FY2017.

Tuition and Fee Revenue is down due to the enrollment decline and is not fully offset by the increase in those charges to students.

The **Scholarship Allowance** for 1st Quarter FY2018 is higher than 1st Quarter FY2017, which is an indicator that additional institutional and financial aid resources are required to recruit and retain students. (The **Scholarship Allowance** is a formula-based calculation that encompasses all types of resources available to students including Federal and State aid in the form of grants and scholarships, loans from all sources, institutional scholarships, waivers and third party payments from sources such as National Guard and Veterans Administration.)

Auxiliary Enterprises Revenue generated from the operation of Auxiliary Enterprises for 1st Quarter FY2018 is **$7.0 million**, **down 9.0%, $689,000**, from **$7.7 million** in 1st Quarter FY2017. This is a combined result of the enrollment decline and the opening of Potomac Place. **Housing Revenues** from Potomac Place are **excluded** from University revenues. The University retains board revenue from students residing in Potomac Place.

Operating Expenses

The University expended **21.5%** of budgeted Operating Expenses at the end of the 1st Quarter FY2018. Primary Mission Costs for **Instruction, Student Services,** and **Scholarships and Fellowships** are **less than 25% of budget YTD** at the end of 1st Quarter FY2018. **Academic Support** and **Institutional Support** increased to **26.7%** and **27.8%** of budget, respectively.

Operating Expenses are down **5.7%**, **$757,000**, from 1st Quarter FY2018 compared to 1st Quarter 2017, with **increases** reflected only in **Instruction** and **Institutional Support**. The increase is primarily due to the salary equity adjustments provided to all faculty and many hourly classified staff, both full-time and part-time.

Non-operating Revenues and Expenses

Total Non-operating Revenues and Expenses for 1st Quarter FY2018 are **down 6.9%, $324,000**, compared to 1st Quarter FY2017.

State Appropriations are **down 2.0%, $48,000**, as a result of reduced State support for the current fiscal year. As previously stated, this was a mid-year reduction and results in a **quarterly reduction of $12,000** for FY2018.

Non-operating federal revenue is **up 7.0%, $165,000**. This line is for **PELL**.

Gifts are **up 18.7%, 79,000**, year-over-year. This revenue is generated by contributions from the Foundation. The majority is in the form of student scholarships.

Other Revenues, Expenses, Gains or Losses

Expenses for Other Post-Employment Benefits (OPEB) are down compared to 1st Quarter FY2017, 120.4%, $65,000.

Total Net Assets, at the end of 1st Quarter 2018, are **$89.3 million** compared to **$95.9 million** 1st Quarter FY2017, **down 6.9%, $6.6 million**. This change continues to be driven by a decrease in the University's State appropriations, a decline in significant capital investments and a decline in enrollment.

Summary:

This fiscal year presents a variety of emerging trends and economic indicators for higher education. This will continue to be a challenging year as we strive to define and market Shepherd University to compete for the available population of students who are shopping for the best choice to fulfill their educational goals at the most economic price. This must be done in the environment of cost containment with no perceived disadvantage to the student population. And, Shepherd will provide exemplary service to the students in all facets of the educational experience.

The Finance Department is an integral part of all areas of the University. Fulfilling the responsibility to provide timely and accurate financial information to the Executive Leadership Team will guide many decisions for the present and future of Shepherd University.

Table 1

Shepherd University

Statement of Net Position

FY18 - For the Quarter Ending September 30, 2017

(Dollars in Thousands)

	QTD Actual 9/30/17	QTD Actual 9/30/16	% Change
ASSETS			
Current assets:			
Cash and cash equivalents	18,142	20,540	-11.67%
Accounts receivable net	1,903	1,957	-2.76%
Grants and contracts receivable, net	4,997	5,505	-9.23%
Due from the Commission	-	-	n/a
Inventories	603	558	8.06%
Loans Receivable	100	100	0.00%
Other assets	2	-	n/a
Total Current assets	**25,747**	**28,660**	**-10.16%**
Noncurrent assets:			
Restricted cash and cash equivalents	1	-	n/a
Investments	-	-	n/a
Loans receivable, net	368	411	-10.46%
Capital assets net	121,620	125,876	-3.38%
Other Noncurrent assets	255	307	-16.9%
Total Noncurrent assets	**122,244**	**126,594**	**-3.44%**
TOTAL ASSETS	**$147,991**	**$155,254**	**-4.68%**
Total Deferred Outflows of Resources (GASB 68)	**$88**	**$43**	**104.65%**
TOTAL ASSETS & DEFERRED OUTFLOWS	**$148,079**	**$155,297**	**-4.65%**
LIABILITIES			
Current liabilities:			
Accounts payable	1,101	1,417	-22.30%
Accrued liabilities	2,084	2,191	-4.88%
Due to the Commission	-	-	n/a
Due to other State agencies	-	1	-100.00%
Deferred revenue	1,077	111	870.27%
Long-term liabilities - current portion	2,502	2,341	6.88%
Total Current liabilities	**6,764**	**6,061**	**11.60%**
Noncurrent liabilities:			
Advances from federal sponsors	499	509	-1.96%
Deposits	179	178	0.56%
Other post employment benefits	11,249	10,878	3.41%
Compensated absences	342	339	0.88%
Net pension liability	391	449	-12.92%
Debt obligation due Commission	675	750	n/a
Leases Payable	289	432	-33.10%
Bonds Payable	38,208	39,544	-3.38%
Total Noncurrent liabilities	**51,832**	**53,079**	**-2.35%**
TOTAL LIABILITIES	**58,596**	**59,140**	**-0.92%**
Total Deferred Inflows of Resources (GASB 68)	**195**	**235**	**-17.02%**
TOTAL LIABILITIES & DEFERRED INFLOWS OF RESURCES	**58,791**	**59,375**	**-0.98%**
NET POSITION	**89,288**	**95,922**	**-6.92%**
TOTAL LIABILITIES AND NET POSITION	**$148,079**	**$155,297**	**-4.65%**

Table 2

Shepherd University

Budget to Actual Report

FY18 - For the Quarter Ending September 30, 2017

(Dollars in Thousands)

	Revised Annual Budget	YTD Actual	$ Variance	% Budget
OPERATING REVENUES				
Gross Tuition and Fees	$28,725	$14,159	$14,566	49.3%
Scholarship Allowance	($11,810)	($6,294)	($5,516)	53.3%
Federal Grants and Contracts	1,500	292	1,208	19.5%
State and Local Grants and Contracts	4,165	1,603	2,562	38.5%
Private Grants and Contracts	20	-	20	0.0%
Sales and Services of Educational Activities	20	-	20	0.0%
Auxiliary Enterprises	15,250	6,980	8,270	45.8%
Other Operating Revenues	529	330	199	62.4%
TOTAL OPERATING REVENUES	**38,399**	**17,070**	**21,329**	**44.5%**
OPERATING EXPENSES				
Instruction	17,700	3,294	14,406	18.6%
Academic Support	3,340	893	2,447	26.7%
Student Services	3,715	814	2,901	21.9%
Scholarships & Fellowships	14,310	6,393	7,917	44.7%
Scholarships Allowance	(11,810)	(6,294)	(5,516)	53.3%
Operations and Maintenance	4,410	985	3,425	22.3%
Institutional Support	5,989	1,662	4,327	27.8%
Research	245	46	199	18.8%
Public Service	240	70	170	29.2%
Auxiliary Expenses	12,560	2,953	9,607	23.5%
Depreciation Expense	7,250	1,657	5,593	22.9%
Transfers and Other (Additions) Subtractions	437	61	376	14.0%
TOTAL OPERATING EXPENSES	**58,386**	**12,534**	**45,852**	**21.5%**
NONOPERATING REVENUES AND EXPENSES				
State Appropriations	9,361	2,340	7,021	25.0%
Nonoperating federal revenue	5,400	2,516	2,884	46.6%
Investment Income	35	30	5	85.7%
Interest on capital asset related debt	(1,435)	(363)	(1,072)	25.3%
Loss on disposal of equipment	-	-	-	n/a
Gifts	1,500	501	999	33.4%
Payments on behalf of Shepherd University	-	-	-	n/a
Fees assessed by the Commission for interest and reserves	(38)	-	(38)	0.0%
TOTAL NONOPERATING REVENUES AND EXPENSES	**14,823**	**5,024**	**9,799**	**33.9%**
OTHER REVENUES, EXPENSES, GAINS OR LOSSES				
Other Post Employment Benefits (OPEB) expense	(645)	(119)	(526)	18.4%
Increase (Decrease) in Net Position	**(5,809)**	**9,441**	**(15,250)**	**-162.5%**

Table 3

Shepherd University

Statement of Revenues, Expenses and Other Changes

FY18 - For the Quarter Ending September 30, 2017

(Dollars in Thousands)

	Revised Budget FY18 Annual	YTD Actual 9/30/17	YTD Actual 9/30/16	% Change	$ Change
OPERATING REVENUES					
Tuition and Fees	28,725	$14,159	$14,713	-3.8%	($554)
Scholarship Allowance	(11,810)	($6,294)	($5,398)	16.6%	($896)
Federal Grants and Contracts	1,500	292	312	-6.4%	(20)
State and Local Grants and Contracts	4,165	1,603	1,582	1.3%	21
Private Grants and Contracts	20	-	-	n/a	-
Sales and Services of Educational Activities	20	-	11	-100.0%	(11)
Auxiliary Enterprises	15,250	6,980	7,669	-9.0%	(689)
Other Operating Revenues	529	330	221	49.3%	109
TOTAL OPERATING REVENUES	**38,399**	**17,070**	**19,110**	-10.7%	**(2,040)**
OPERATING EXPENSES					
Instruction	17,700	3,294	3,193	3.2%	101
Academic Support	3,340	893	935	-4.5%	(42)
Student Services	3,715	814	862	-5.6%	(48)
Scholarships & Fellowships	14,310	6,393	6,078	5.2%	315
Scholarships Allowance	(11,810)	(6,294)	(5,398)	16.6%	(896)
Operations and Maintenance	4,410	985	1,083	-9.0%	(98)
Institutional Support	5,989	1,662	1,520	9.3%	142
Research	245	46	49	-6.1%	(3)
Public Service	240	70	74	-5.4%	(4)
Auxiliary Expenses	12,560	2,953	3,097	-4.6%	(144)
Depreciation Expense	7,250	1,657	1,733	-4.4%	(76)
Transfers and Other (Additions) Subtractions	437	61	65	-6.2%	(4)
TOTAL OPERATING EXPENSES	**58,386**	**12,534**	**13,291**	-5.7%	**(757)**
NONOPERATING REVENUES AND EXPENSES					
State Appropriations	9,361	2,340	2,388	-2.0%	(48)
Nonoperating federal revenue	5,400	2,516	2,351	7.0%	165
Investment Income	35	30	17	76.5%	13
Interest on capital asset related debt	(1,435)	(363)	(469)	-22.6%	106
Loss on disposal of equipment	0	-	-	n/a	-
Gifts	1,500	501	422	18.7%	79
Payments on behalf of Shepherd University	0	-	-	n/a	-
Fees assessed by the Commission for interest and res	(38)	-	(9)	-100.0%	9
TOTAL NONOPERATING REVENUES AND EX	**14,823**	**5,024**	**4,700**	**6.9%**	**324**
OTHER REVENUES, EXPENSES, GAINS OR LOSSES					
Other Post Employment Benefits (OPEB) expense	(645)	(119)	(54)	120.4%	(65)
Increase (Decrease) in Net Position	**(5,809)**	**9,441**	**10,467**	**9.8%**	**($1,024)**

Shepherd University Board of Governors
Report to the Finance and Facilities Committee
March 1, 2018
Discussion/Presentation Agenda Item No. 5-a

QUARTERLY FINANCIAL REPORT - 2ND QUARTER FY2018

Ms. Pam Stevens, Vice President for Finance, will present the quarterly financial report.

Financial results are provided in the following three reports for the second quarter of FY2018:

1) Statement of Revenues, Expense and Other changes – FY2018 compared to FY2017
2) Budget to Actual Report
3) Statement of Net Position

Overview of Comparison: 2nd Quarter FY2018 compared to 2nd Quarter FY2017

- **8.9%, $1.9 million**, decrease in Total Operating Revenues
- **1.7%, $504,000**, decrease in Total Operating Expenses
- **17.4%, $3.2 million**, decrease in Cash and Cash Equivalents
- **8.6%, $7.3 million**, decrease in Net Position

STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES

Operating Revenues: $19 million – Decreased **8.9%; 1.9 million** year-over-year

Tuition and Fee Revenue – **$14.4 million** – Decreased **1.7%**

Enrollment decline is not fully offset by increase in charges to students.

Scholarship Allowance – $6.3 million – Increased **16.6%**

The 2nd Quarter FY2018 allowance is higher than the 2nd Quarter FY2017, a result of additional institutional and financial aid resources required to recruit new students.

Auxiliary Enterprises Revenue – **$7.9 million** – Decreased **7.1%**

The 2nd Quarter FY2018 allowance is lower than the 2nd Quarter FY2017 by **$600,000**. Increases in some auxiliary areas were offset by a small, but further decline in enrollment and the opening of Potomac Place. **Housing Revenues** from Potomac Place are **excluded** from the University revenues ($964,000) because those revenues belong to Shepherd University Foundation Supporting Organization (SUFSO) and are pledged to paying for the new building.

Operating Expenses: $28.7 million – Decreased **1.7%**

The 2nd Quarter FY2018 Operating Expenses total **49.2%** of the FY2018 budget. Primary Mission Costs for ***Instruction, Academic Support, Student Services*** and ***Operations and Maintenance*** are **at or less than 50% of budget YTD**; while ***Auxiliary, Institutional Support*** and ***Scholarship*** *and* ***Fellowships*** are slightly above 50% of budget, **51.1%, 52.0%,** and **51.2%,** respectively.

Operating Expenses decreased **1.7%**, **$504,000**, for 2nd Quarter FY2018 as compared to the same period in FY2017, with ***increases*** reflected only in **Instruction, Scholarships and Fellowships** and **Student Services**. The increase is primarily due to the salary equity adjustments provided to all faculty and many hourly classified staff.

Non-Operating Revenues and Expenses: $6.8 million – Decreased **1.8%**

- Total Non-Operating Revenues and Expenses for the 2nd Quarter FY2018 are **down 1.8%, $128,000**, compared to 2nd Quarter FY2017.
- Non-Operating federal revenue increased **$262,000,** an **11.1%, increase in PELL**.
- Gifts total **$673,000**, an increase of **$108,000**, **(19.1%)**, year-over-year. This revenue is generated by contributions from the Shepherd University Foundation. The majority is in the form of student scholarships. Loss on disposal of Sara Cree was booked at $325,000. This loss resulted from the capital asset reclassification of the demolition and parking lot construction at the completion of the project.

Other Revenues, Expenses, Gains or Losses: ($238,000) – (Expenses) Increased

Other Post-Employment Benefits (OPEB) are up compared to 2nd Quarter FY2017, **161.5%**. This amount is an estimate in the absence of information provided by PEIA.

STATEMENT OF NET POSITION

Assets

Total Assets: **$152 million** – Decreased approximately **4.85%**

Decreases in Cash and Capital Assets, net of accumulated depreciation.

Cash and Cash Equivalents: $15.2 million – Decreased **17.4%**

- Days Cash on Hand at 12/31/17: **96**
- Decline in Revenues generated by Tuition and Fees and Auxiliary Enterprises.
- Approximately $964,000 was remitted to the SUFSO for Potomac Place for Fall semester room charges. This represents revenue from resident students which was on our books last year.
- Kenamond Hall was taken offline as a result of additional housing capacity provided by Potomac Place and resulting from its obsolescence and location on East Campus. This further impacts the cash flow generated by those board payments (net of related expenses for that dorm).

At the end of the second quarter FY2018; the University had sufficient cash and other resources on hand to meet operating and capital requirements.

Capital Assets Net: $119.9 million – Decreased **$4.5 million**

- Capital Assets are presented net of Accumulated Depreciation.
- The 2nd Quarter addition to Accumulated Depreciation is **$3.4 million**.
- The University continues to delay major capital expenditures in the continuing effort to preserve cash flow.

Liabilities

Total Liabilities: **$75.1 million** – Decreased **.54%**

The decrease in Bonds/Leases Payable is offset by small increases in Accounts Payable, Accrued Liabilities and OPEB.

Summary: Total Net Position: $76.8 million – Decreased **8.6%**

The declines in State appropriation, enrollment and significant capital investments explain this **8.6%** decrease totaling **$7.3 million**. Net Assets totaled **$84.0 million** for the 2nd Quarter, FY2016 as compared to **$76.8 million** for the 2nd Quarter FY2017.

Table 1

Shepherd University

Statement of Net Position

FY18 - As of December 31, 2017

(Dollars in Thousands)

	12/31/17	12/31/16	% Change
ASSETS			
Current assets:			
Cash and cash equivalents	15,298	18,520	-17.40%
Accounts receivable net	15,140	14,902	1.60%
Grants and contracts receivable, net	515	544	-5.33%
Due from the Commission	-	-	n/a
Inventories	476	636	-25.16%
Loans Receivable	100	100	0.00%
Other assets	3	-	n/a
Total Current assets	**31,532**	**34,702**	**-9.13%**
Noncurrent assets:			
Restricted cash and cash equivalents	2	-	n/a
Investments	-	-	n/a
Loans receivable, net	320	384	-16.67%
Capital assets net	119,870	124,398	-3.64%
Other Noncurrent assets	255	281	-9.3%
Total Noncurrent assets	**120,447**	**125,063**	**-3.69%**
TOTAL ASSETS	**$151,979**	**$159,765**	**-4.87%**
Total Deferred Outflows of Resources (GASB 68)	**$88**	**$53**	**66.04%**
TOTAL ASSETS & DEFERRED OUTFLOWS	**$152,067**	**$159,818**	**-4.85%**
LIABILITIES			
Current liabilities:			
Accounts payable	675	611	10.47%
Accrued liabilities	3,029	2,523	20.06%
Due to the Commission	-	-	n/a
Due to other State agencies	-	-	n/a
Deferred revenue	17,719	17,733	-0.08%
Long-term liabilities - current portion	2,511	2,373	5.82%
Total Current liabilities	**23,934**	**23,240**	**2.99%**
Noncurrent liabilities:			
Advances from federal sponsors	499	509	-1.96%
Deposits	161	162	-0.62%
Other post employment benefits	11,367	10,918	4.11%
Compensated absences	384	372	3.23%
Net pension liability	391	327	19.57%
Debt obligation due Commission	675	750	n/a
Leases Payable	265	396	-33.08%
Bonds Payable	37,403	38,810	-3.63%
Total Noncurrent liabilities	**51,145**	**52,244**	**-2.10%**
TOTAL LIABILITIES	**75,079**	**75,484**	**-0.54%**
Total Deferred Inflows of Resources (GASB 68)	**195**	**288**	**-32.29%**
TOTAL LIABILITIES & DEFERRED INFLOWS OF RESURCES	**75,274**	**75,772**	**-0.66%**
NET POSITION	**76,793**	**84,046**	**-8.63%**
TOTAL LIABILITIES AND NET POSITION	**$152,067**	**$159,818**	**-4.85%**

Table 2

Shepherd University

Budget to Actual Report

FY18 - For the Quarter Ending December 31, 2017

(Dollars in Thousands)

	Revised Annual Budget	YTD Actual	$ Variance	% Budget
OPERATING REVENUES				
Gross Tuition and Fees	$28,725	$14,443	$14,282	50.3%
Scholarship Allowance	($11,810)	($6,294)	($5,516)	53.3%
Federal Grants and Contracts	1,500	553	947	36.9%
State and Local Grants and Contracts	4,165	2,125	2,040	51.0%
Private Grants and Contracts	20	-	20	0.0%
Sales and Services of Educational Activities	20	18	2	90.0%
Auxiliary Enterprises	15,250	7,877	7,373	51.7%
Other Operating Revenues	529	286	243	54.1%
TOTAL OPERATING REVENUES	**38,399**	**19,008**	**19,391**	**49.5%**
OPERATING EXPENSES				
Instruction	17,700	8,888	8,812	50.2%
Academic Support	3,340	1,695	1,645	50.7%
Student Services	3,715	1,740	1,975	46.8%
Scholarships & Fellowships	14,310	7,324	6,986	51.2%
Scholarships Allowance	(11,810)	(6,294)	(5,516)	53.3%
Operations and Maintenance	4,410	2,149	2,261	48.7%
Institutional Support	5,989	3,112	2,877	52.0%
Research	245	72	173	29.4%
Public Service	240	117	123	48.8%
Auxiliary Expenses	12,560	6,422	6,138	51.1%
Depreciation Expense	7,250	3,352	3,898	46.2%
Transfers and Other (Additions) Subtractions	437	121	316	27.7%
TOTAL OPERATING EXPENSES	**58,386**	**28,698**	**29,688**	**49.2%**
NONOPERATING REVENUES AND EXPENSES				
State Appropriations	9,361	4,681	4,680	50.0%
Nonoperating federal revenue	5,400	2,613	2,787	48.4%
Investment Income	35	71	(36)	202.9%
Interest on capital asset related debt	(1,435)	(842)	(593)	58.7%
Loss on disposal of equipment	-	(380)	380	n/a
Gifts	1,500	673	827	44.9%
Payments on behalf of Shepherd University	-	-	-	n/a
Fees assessed by the Commission for interest and reserves	(38)	-	(38)	0.0%
TOTAL NONOPERATING REVENUES AND EXPENSES	**14,823**	**6,816**	**8,007**	**46.0%**
OTHER REVENUES, EXPENSES, GAINS OR LOSSES				
Other Post Employment Benefits (OPEB) expense	(645)	(238)	(407)	36.9%
Increase (Decrease) in Net Position	**(5,809)**	**(3,112)**	**(2,697)**	**53.6%**

Table 3

Shepherd University

Statement of Revenues, Expenses and Other Changes

FY18 - For the Quarter Ending December 31, 2017

(Dollars in Thousands)

	Revised Budget FY18 Annual	YTD Actual 12/31/17	YTD Actual 12/31/16	% Change	$ Change
OPERATING REVENUES					
Tuition and Fees	28,725	$14,443	$14,697	-1.7%	($254)
Scholarship Allowance	(11,810)	($6,294)	($5,398)	16.6%	($896)
Federal Grants and Contracts	1,500	553	568	-2.6%	(15)
State and Local Grants and Contracts	4,165	2,125	2,202	-3.5%	(77)
Private Grants and Contracts	20	-	-	n/a	-
Sales and Services of Educational Activities	20	18	25	-28.0%	(7)
Auxiliary Enterprises	15,250	7,877	8,477	-7.1%	(600)
Other Operating Revenues	529	286	303	-5.6%	(17)
TOTAL OPERATING REVENUES	**38,399**	**19,008**	**20,874**	-8.9%	**(1,866)**
OPERATING EXPENSES					
Instruction	17,700	8,888	8,609	3.2%	279
Academic Support	3,340	1,695	1,736	-2.4%	(41)
Student Services	3,715	1,740	1,655	5.1%	85
Scholarships & Fellowships	14,310	7,324	6,725	8.9%	599
Scholarships Allowance	(11,810)	(6,294)	(5,398)	16.6%	(896)
Operations and Maintenance	4,410	2,149	2,239	-4.0%	(90)
Institutional Support	5,989	3,112	3,197	-2.7%	(85)
Research	245	72	98	-26.5%	(26)
Public Service	240	117	145	-19.3%	(28)
Auxiliary Expenses	12,560	6,422	6,547	-1.9%	(125)
Depreciation Expense	7,250	3,352	3,519	-4.7%	(167)
Transfers and Other (Additions) Subtractions	437	121	130	-6.9%	(9)
TOTAL OPERATING EXPENSES	**58,386**	**28,698**	**29,202**	-1.7%	**(504)**
NONOPERATING REVENUES AND (EXPENSES)					
State Appropriations	9,361	4,681	4,776	-2.0%	(95)
Nonoperating federal revenue	5,400	2,613	2,351	11.1%	262
Investment Income	35	71	44	61.4%	27
Interest on capital asset related debt	(1,435)	(842)	(783)	7.5%	(59)
Loss on disposal of equipment	0	(380)	-	n/a	(380)
Gifts	1,500	673	565	19.1%	108
Payments on behalf of Shepherd University	0	-	-	n/a	-
Fees assessed by the Commission for interest and	(38)	-	(9)	-100.0%	9
TOTAL NONOPERATING REVENUES AND E	**14,823**	**6,816**	**6,944**	**-1.8%**	**(128)**
OTHER REVENUES, EXPENSES, GAINS OR LOSSES					
Other Post Employment Benefits (OPEB) expense	(645)	(238)	(91)	161.5%	(147)
Increase (Decrease) in Net Position	**(5,809)**	**(3,112)**	**(1,475)**	**111.0%**	**($1,637)**

Shepherd University Board of Governors
Report to the Finance and Facilities Committee
May 17, 2018
Agenda Item No. 8-a

QUARTERLY FINANCIAL REPORT – 3RD QUARTER FY2018

Ms. Pam Stevens, Vice President for Finance, will present the quarterly financial report.

Financial results are provided in the following three reports for the third quarter of FY2018:

1) Statement of Revenues, Expense and Other Changes – FY2018 compared to FY2017
2) Budget to Actual Report
3) Statement of Net Position

Overview of Comparison: 3rd Quarter FY2018 compared to 3rd Quarter FY2017

- **5.7%, $2.1 million**, decrease in Total Operating Revenues
- **0.3%, $123,000**, increase in Total Operating Expenses
- **13.7%, $2.8 million**, decrease in Cash and Cash Equivalents
- **6.3%, $5.6 million**, decrease in Net Position

STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES

Operating Revenues: $34.5 million – Decreased

Tuition and Fee Revenue – $27 million – 1.4% decrease; $370,000
Small enrollment decline is not fully offset by increase in charges to students.

Scholarship Allowance – $11.9 million – 9.8% increase; $1,070,000
The 3rd Quarter FY2018 allowance is higher than the 3rd Quarter FY2017, a result of additional institutional and financial aid resources required to recruit new students.

Auxiliary Enterprises Revenue – $13.9 million – 7.9% decrease; $1.2 million
The 3rd Quarter FY2018 Auxiliary Enterprises is lower than the 3rd Quarter FY2017, as a result of the small decline in enrollment and the opening of Potomac Place.

Housing Revenues from Potomac Place are ***excluded*** from the University revenues ($964,000). This reduction of revenue and the associated expenses to the University is partially offset by the return of cash surplus that exists at the end of the fiscal year. The current pro-forma document projects that amount to be approximately $900,00 for year one. The USDA loan for Potomac Place closed in February, 2018 and will require less than a full year of debt service for this fiscal year. As a result, future years project a considerably smaller surplus at approximately $400,000 per year.

Operating Expenses: $45.0 million – Increased

The 3rd Quarter FY2018 Operating Expenses total **77.1%** of the FY2018 budget. Primary Mission Costs for ***Academic Support*** and ***Student Services*** are **at or less than 75% of budget YTD**.

Operating Expenses increased **0.3%**; **$123,000**, for 3rd Quarter FY2018 as compared to the same period in FY2017, with ***increases*** reflected in ***Instruction, Operation and Maintenance*** and ***Institutional Support***. The increase is primarily due to the salary equity adjustments provided to all faculty and many hourly classified staff.

Non-Operating Revenues and Expenses: $12.2 million - Increased

Total Non-Operating Revenues and Expenses for the 3rd Quarter FY2018 compared to 3rd Quarter FY2017 **- 8.6%** increase**; $965,000**.

Interest on capital asset related debt **- 51.4%** decrease**; $893,000** year-over-year. Resident Hall and Wellness Center bonds were refinanced in February 2017.

Non-operating federal revenue **- 3.8%** increase**; $183,000, due to an increase in PELL**.

Gifts revenue **- 14.8%** increase**; $173,000**, year-over-year. This revenue is generated by contributions from the Foundation. The majority is in the form of student scholarships.

Loss on disposal of equipment at **$380,000**; **86%** is related to Sara Cree; booked at ***$325,000***.

Other Revenues, Expenses, Gains or Losses: ($356,000) – (Expenses) Increased

Other Post-Employment Benefits (OPEB) - 72% increase; $149,000 compared to 3rd Quarter FY2017. This amount is an estimate in the absence of information provided by PEIA.

STATEMENT OF NET POSITION

Assets

Total Assets: $140 million - 4.93% approximate decrease; $7.3 million

Decreases in Cash, Grants and Contract Receivables, Inventories, and Capital Assets, net of accumulated depreciation.

Cash and Cash Equivalents: $17.9 million – 13.7% decrease; $2.8 million

Days Cash on Hand at March 31, 2018: **163**

Decline in Revenues generated by Tuition and Fees and Auxiliary Enterprises contribute to the decline in cash and cash equivalents.

At the end of the 3rd Quarter FY2018; the University had sufficient cash and other resources on hand to meet operating and capital requirements.

Cash balances fluctuate substantially quarter to quarter. The first and third quarter cash balances are considerably higher resulting from the collection of tuition and fees, room and board and financial aid for the Fall and Spring semesters. The second and fourth quarters continue to have many of the same cash outflows for expenses that are paid monthly, without comparable cash inflows from student payment activity. Examples include telephone, computer access, utilities, as well as salaries and benefits for 12 month employees. It is essential to recognize that our "Days Cash on Hand" ratio varies throughout the year on a quarterly basis.

Grant and Contract Receivables: $649,000 – 58.9% decrease; $930,000

More timely grant and scholarship billings. Approximately $600,000 in Promise and WV Grant spring scholarships were received in April last year, however, spring 2018 awards were received in March this year. As noted in the President's Report, total grant/contract awards are $2,347,171.00.

Inventories: $242,000 – 42.5% decrease; $179,000

Bookstore inventory was sold to Follett in mid-March when they assumed operation.

Capital Assets Net: $119.7 million – 2.74% decrease; $3.4 million

Capital Assets are presented net of Accumulated Depreciation

The 3rd Quarter addition to Accumulated Depreciation is **$5.0 million**.

The University continues to delay major capital expenditures in the continuing effort to preserve cash flow.

Liabilities

Total Liabilities: **$57.4 million** - 2.65% decrease; $1.6 million

The decrease in Bonds Notes and Leases Payable is offset by small increases in Accrued Liabilities and OPEB.

Summary

Total Net Position: $82.7 million – 6.3% decrease; $5.6 million

The declines in State appropriation, enrollment, and significant capital investments explain this decrease as compared to **$88.2 million** 3rd Quarter FY2017.

Table 1

Shepherd University
Statement of Net Position
FY18 - As of March 31, 2018
(Dollars in Thousands)

	3/31/18	3/31/17	% Change
ASSETS			
Current assets:			
Cash and cash equivalents	17,854	20,687	-13.69%
Accounts receivable net	947	822	15.21%
Grants and contracts receivable, net	649	1,579	-58.90%
Due from the Commission	-	-	n/a
Inventories	242	421	-42.52%
Loans Receivable	100	100	0.00%
Other assets	-	-	n/a
Total Current assets	**19,792**	**23,609**	**-16.17%**
Noncurrent assets:			
Restricted cash and cash equivalents	2	1	100.00%
Investments	-	-	n/a
Loans receivable, net	342	390	-12.31%
Capital assets net	119,738	123,116	-2.74%
Other Noncurrent assets	253	281	-10.0%
Total Noncurrent assets	**120,335**	**123,788**	**-2.79%**
TOTAL ASSETS	**$140,127**	**$147,397**	**-4.93%**
Total Deferred Outflows of Resources (GASB 68)	**$88**	**$54**	**62.96%**
TOTAL ASSETS & DEFERRED OUTFLOWS	**$140,215**	**$147,451**	**-4.91%**
LIABILITIES			
Current liabilities:			
Accounts payable	669	688	-2.76%
Accrued liabilities	2,853	2,542	12.23%
Due to the Commission	-	-	n/a
Due to other State agencies	-	-	n/a
Deferred revenue	182	266	-31.58%
Long-term liabilities - current portion	2,528	2,560	-1.25%
Total Current liabilities	**6,232**	**6,056**	**2.91%**
Noncurrent liabilities:			
Advances from federal sponsors	499	510	-2.16%
Deposits	174	202	-13.86%
Other post employment benefits	11,486	11,029	4.14%
Compensated absences	432	412	4.85%
Net pension liability	391	327	19.57%
Debt obligation due Commission	525	675	n/a
Leases Payable	216	360	-40.00%
Bonds Payable	37,403	39,348	-4.94%
Total Noncurrent liabilities	**51,126**	**52,863**	**-3.29%**
TOTAL LIABILITIES	**57,358**	**58,919**	**-2.65%**
Total Deferred Inflows of Resources (GASB 68)	**195**	**288**	**-32.29%**
TOTAL LIABILITIES & DEFERRED INFLOWS OF RESOURCES	**57,553**	**59,207**	**-2.79%**
NET POSITION	**82,662**	**88,244**	**-6.33%**
TOTAL LIABILITIES AND NET POSITION	**$140,215**	**$147,451**	**-4.91%**

Table 2

Shepherd University

Budget to Actual Report

FY18 - For the Quarter Ending March 31, 2018

(Dollars in Thousands)

	Revised Annual Budget	YTD Actual	$ Variance	% Budget
OPERATING REVENUES				
Gross Tuition and Fees	$28,725	$26,964	$1,761	93.9%
Scholarship Allowance	($11,810)	($11,953)	$143	101.2%
Federal Grants and Contracts	1,500	934	566	62.3%
State and Local Grants and Contracts	4,165	3,943	222	94.7%
Private Grants and Contracts	20	-	20	0.0%
Sales and Services of Educational Activities	20	24	(4)	120.0%
Auxiliary Enterprises	15,250	13,980	1,270	91.7%
Other Operating Revenues	529	615	(86)	116.3%
TOTAL OPERATING REVENUES	**38,399**	**34,507**	**3,892**	**89.9%**
OPERATING EXPENSES				
Instruction	17,700	14,220	3,480	80.3%
Academic Support	3,340	2,400	940	71.9%
Student Services	3,715	2,520	1,195	67.8%
Scholarships & Fellowships	14,310	14,066	244	98.3%
Scholarships Allowance	(11,810)	(11,953)	143	101.2%
Operations and Maintenance	4,410	3,574	836	81.0%
Institutional Support	5,989	4,660	1,329	77.8%
Research	245	147	98	60.0%
Public Service	240	162	78	67.5%
Auxiliary Expenses	12,560	10,022	2,538	79.8%
Depreciation Expense	7,250	5,027	2,223	69.3%
Transfers and Other (Additions) Subtractions	437	182	255	41.6%
TOTAL OPERATING EXPENSES	**58,386**	**45,027**	**13,359**	**77.1%**
NONOPERATING REVENUES AND EXPENSES				
State Appropriations	9,361	7,021	2,340	75.0%
Nonoperating federal revenue	5,400	4,969	431	92.0%
Investment Income	35	131	(96)	374.3%
Interest on capital asset related debt	(1,435)	(844)	(591)	58.8%
Loss on disposal of equipment	-	(380)	380	n/a
Gifts	1,500	1,342	158	89.5%
Payments on behalf of Shepherd University	-	-	-	n/a
Fees assessed by the Commission for interest and reserves	(38)	(18)	(20)	47.6%
TOTAL NONOPERATING REVENUES AND EXPENSES	**14,823**	**12,221**	**2,602**	**82.4%**
OTHER REVENUES, EXPENSES, GAINS OR LOSSES				
Other Post Employment Benefits (OPEB) expense	(645)	(356)	(289)	55.2%
Increase (Decrease) in Net Position	**(5,809)**	**1,345**	**(7,154)**	**-23.2%**

Table 3

Shepherd University

Statement of Revenues, Expenses and Other Changes

FY18 - For the Quarter Ending March 31, 2018

(Dollars in Thousands)

	Revised Budget FY18 Annual	YTD Actual 3/31/18	YTD Actual 3/31/17	% Change	$ Change
OPERATING REVENUES					
Tuition and Fees	28,725	$26,964	$27,334	-1.4%	($370)
Scholarship Allowance	(11,810)	(11,953)	(10,883)	9.8%	(1,070)
Federal Grants and Contracts	1,500	934	890	4.9%	44
State and Local Grants and Contracts	4,165	3,943	3,629	8.7%	314
Private Grants and Contracts	20	-	-	n/a	-
Sales and Services of Educational Activities	20	24	37	-35.1%	(13)
Auxiliary Enterprises	15,250	13,980	15,185	-7.9%	(1,205)
Other Operating Revenues	529	615	384	60.2%	231
TOTAL OPERATING REVENUES	**38,399**	**34,507**	**36,576**	-5.7%	**(2,069)**
OPERATING EXPENSES					
Instruction	17,700	14,220	13,607	4.5%	613
Academic Support	3,340	2,400	2,480	-3.2%	(80)
Student Services	3,715	2,520	2,476	1.8%	44
Scholarships & Fellowships	14,310	14,066	13,301	5.8%	765
Scholarships Allowance	(11,810)	(11,953)	(10,883)	9.8%	(1,070)
Operations and Maintenance	4,410	3,574	3,368	6.1%	206
Institutional Support	5,989	4,660	4,710	-1.1%	(50)
Research	245	147	133	10.5%	14
Public Service	240	162	190	-14.7%	(28)
Auxiliary Expenses	12,560	10,022	10,022	0.0%	-
Depreciation Expense	7,250	5,027	5,305	-5.2%	(278)
Transfers and Other (Additions) Subtractions	437	182	195	-6.7%	(13)
TOTAL OPERATING EXPENSES	**58,386**	**45,027**	**44,904**	0.3%	**123**
NONOPERATING REVENUES AND (EXPENSES)					
State Appropriations	9,361	7,021	6,973	0.7%	48
Nonoperating federal revenue	5,400	4,969	4,786	3.8%	183
Investment Income	35	131	83	57.8%	48
Interest on capital asset related debt	(1,435)	(844)	(1,737)	-51.4%	893
Loss on disposal of equipment	0	(380)	-	n/a	(380)
Gifts	1,500	1,342	1,169	14.8%	173
Payments on behalf of Shepherd University	0	-	-	n/a	-
Fees assessed by the Commission for interest and reserves	(38)	(18)	(18)	0.0%	-
TOTAL NONOPERATING REVENUES AND EXPENSES	**14,823**	**12,221**	**11,256**	**8.6%**	**965**
OTHER REVENUES, EXPENSES, GAINS OR LOSSES					
Other Post Employment Benefits (OPEB) expense	(645)	(356)	(207)	72.0%	(149)
Increase (Decrease) in Net Position	**(5,809)**	**1,345**	**2,721**	**-50.6%**	**($1,376)**

Shepherd University Board of Governors
Report to the Finance and Facilities Committee
September 20, 2018
Agenda Item No. 8-a

QUARTERLY FINANCIAL REPORT: 4th QUARTER FY2018 (Pre-audit)

Ms. Pam Stevens, Vice President for Finance, will present the quarterly financial report.

Financial results are provided in the following three reports for the 4th Quarter of FY2018:

1) Statement of Net Position
2) Budget to Actual Report
3) Statement of Revenues, Expense and Other Changes – FY2018 compared to FY2017

Overview of Comparison: 4th Quarter FY2018 compared to 4th Quarter FY2017

- **1.8%, $700,000**, decrease in Total Operating Revenues
- **1.3%, $771,000**, increase in Total Operating Expenses
- **24.4%, $3.6 million**, decrease in Cash and Cash Equivalents
- **8.5%, $6.8 million**, decrease in Net Position

STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES

Operating Revenues: $700,000 – Decreased

Tuition and Fee Revenue – $27.9 million – 2.4% decrease; $684,000
Enrollment decline is not fully offset by increase in charges to students.

Scholarship Allowance – $11.6 million – 5.7% increase; $629,000
The 4th Quarter FY2018 allowance is higher than the 4th Quarter FY2017, a result of additional institutional and financial aid resources required to recruit new students.

Auxiliary Enterprises Revenue – $15.9 million – 4.5% increase; $683,000
The 4th Quarter FY2018 Auxiliary Enterprises Revenue is higher than the 4th Quarter FY2017, as a result of the ground lease rent payment from the Potomac Place operations surplus, as stated in the agreement between the University and the Shepherd University Foundation Supporting Organization (SUFSO).

Housing Revenues from Potomac Place are ***excluded*** from the University Auxiliary Revenues ($1,824,000 year-to-date). This net result from the reduction of revenue and the associated expenses to the University is partially offset by the return of cash surplus that exists at the end of the fiscal year. The amount to be paid during September 2018 is **$965,782** for year 1. The USDA loan for Potomac Place closed in February 2018 and will require less than a full year of debt service for FY2018. As a result, future years project a considerably smaller surplus at approximately $400,000 per year.

Operating Expenses: $59.2 million – Increased

The 4th Quarter FY2018 Operating Expenses total **101.4%**; **$817,000** of the FY2018 budgeted amount.

Operating Expenses increased **1.3%**; **$771,000**, for 4th Quarter FY2018 as compared to the same period in FY2017, with ***increases*** reflected in ***Instruction, Operation and Maintenance, Research*** and ***Auxiliary Expenses***. The increase is due to several large variances: Contractual Services increased by $469,160 due to an increased use of outside custodial services; Amortization expense included a large credit of $447,539 resulting from the refinancing of bonds in FY2017 which did not reoccur in FY2018; and Routine Maintenance to Buildings increased by $159,000 due to the continued and necessary practice of addressing deferred maintenance.

Operating Expenses decreased for ***Academic Support, Institutional Support, Student Services and Public Service*** resulting in amounts **less than 100% of the FY2018 budgeted amount**.

Non-Operating Revenues and Expenses: $14.5 million – Increased

Total Non-Operating Revenues and Expenses for the 4th Quarter FY2018 compared to 4th Quarter FY2017 – **6.3%** increase; **$862,000**.

Interest on Capital Asset Related Debt – **34.9%** decrease; **$764,000** year-over-year. Residence Hall and Wellness Center bonds were refinanced in February 2017, providing a lower interest rate for the entire 2018 fiscal year.

Non-operating Federal Revenue – **6.8%** increase; **$324,000,** due to an increase in PELL.

Gifts Revenue – **9.7%** increase; **$146,000**, year-over-year. This revenue is generated by contributions from the Shepherd University Foundation. The majority is in the form of student scholarships.

Loss on disposal of equipment at **$390,000**; is primarily related to Sara Cree; booked at **$380,000**.

Other Revenues, Expenses, Gains or Losses: ($356,000) – (Expenses) Increased

Other Post-Employment Benefits (OPEB) – GASB75 is in effect for FY2018 and will be prepared during the audit. The amount shown on these unaudited financial reports is equal to the amount expensed year-to-date and will not accurately reflect the year-end outcome. It is provided for comparison purposes only.

STATEMENT OF NET POSITION

Assets

Total Assets: $131.3 million – 6.03% approximate decrease; $8.4 million

Decreases in balances include Cash, Accounts Receivable, Inventories, Loan Receivables, Capital Assets, Net of Accumulated Depreciation and Other Noncurrent Assets.

Cash and Cash Equivalents: $11.0 million – 24.43% decrease; $3.5 million

Days Cash on Hand at June 30, 2018: **76**

Decline in Revenues generated by Tuition and Fees and Auxiliary Enterprises contribute to the decline in cash and cash equivalents.

At the end of the 4th Quarter FY2018; the University had sufficient cash and other resources on hand to meet operating and capital requirements.

Cash balances fluctuate substantially from quarter to quarter. The 1st and 3rd quarter cash balances are considerably higher resulting from the collection of tuition and fees, room and board and financial aid for the fall and spring semesters. The 2nd and 4th quarters continue to have many of the same cash outflows for expenses that are paid monthly, without comparable cash inflows from student payment activity. Examples include telephone, computer access, utilities, as well as salaries and benefits for twelve-month employees. It is essential to recognize that our "Days Cash on Hand" ratio varies throughout the year on a quarterly basis.

Accounts Receivable, Net: $457,000 – 33.19% decrease; $227,000

Finance has implemented early collection procedures for student accounts. A total of $390,275 of the past due student accounts ($720,312.85) for FY2018 were collected without expense to the University. Approximately $92,000 existed from a prior academic year and a small percentage ($28,000) was successfully collected for the Fall term due to this being the initial period for the process. Past due balances on student accounts frequently exist resulting from a change in the student enrollment, which results in a reduction of financial aid. These funds are returned to the U.S. Department of Education and, subsequently result in removal of the funds from the students account.

A second effort to reduce the expense of collecting student accounts while providing a service to the students is the Business Office retaining the Student Payment Plan in-house. This service had been outsourced and is now managed by Business Office staff. This transition enables students to make partial payments and prevents them from being dropped from classes, which also contributes to retention. For the spring semester, 150 payment plans were negotiated.

Grant and Contract Receivables: $1,721,000 – 206% increase; $1,159,000

The Potomac Place receivable of $965,872 is included in this account. A receivable in the amount of approximately $97,800 representing the insurance settlement for the damages to Potomac Place from the April water damage is also in this account. Both of these amounts are expected to be received in September 2018.

Inventories: $16,000 – 96% decrease; $393,000

Bookstore inventory was sold to Follett following the mid-March operational conversion. In addition, the food inventory for dining services was being reduced in anticipation of Chartwells assuming those operations for FY2019.

Capital Assets Net: $117.4 million – 4.36% decrease; $5.4 million

Capital Assets are presented net of Accumulated Depreciation

The 4th Quarter FY2018 addition of $1.6 million to Accumulated Depreciation brings the annual total to **$6.629 million**.

The University continues to delay major capital expenditures in the continuing effort to preserve cash flow. However, some capital projects were essential to ensure safe and efficient operations.

Liabilities

Total Liabilities: **$57.9 million** - 2.8% decrease; $1.65 million

The decrease in Bonds Notes and Leases Payable is offset by small increases in Deposits, Compensated Absences, and OPEB.

Summary

Total Net Position: $73.1 million – 8.5% decrease; $6.8 million

The decline in the 4th Quarter FY2018 Net Position indicates the lack of sufficient State appropriation, declines in enrollment, and declines in significant capital investments, as compared to Total Net Position of **$79.9 million** in the 4th Quarter FY2017.

Table 1

Shepherd University

Statement of Net Position

FY2018 - As of June 30, 2018 - Pre-Audit

(Dollars in Thousands)

	6/30/18	6/30/17	% Change
ASSETS			
Current assets:			
Cash and cash equivalents	10,994	14,548	-24.43%
Accounts receivable net	457	684	-33.19%
Grants and contracts receivable, net	1,721	562	206.23%
Due from the Commission	16	13	23.08%
Inventories	16	409	-96.09%
Loans Receivable	100	100	0.09%
Other assets	-	-	n/a
Total Current assets	**13,304**	**16,316**	**-18.46%**
Noncurrent assets:			
Restricted cash and cash equivalents	5	-	n/a
Investments	-	-	n/a
Loans receivable, net	317	353	-10.20%
Capital assets net	117,361	122,707	-4.36%
Other Noncurrent assets	218	255	-14.5%
Total Noncurrent assets	**117,901**	**123,315**	**-4.39%**
TOTAL ASSETS	**$131,205**	**139,631**	**-6.03%**
Total Deferred Outflows of Resources (GASB 68)	**$88**	**$88**	**0.00%**
TOTAL ASSETS & DEFERRED OUTFLOWS	**$131,293**	**139,719**	**-6.03%**
LIABILITIES			
Current liabilities:			
Accounts payable	1,330	1,354	-1.77%
Accrued liabilities	2,757	3,097	-10.98%
Due to the Commission	-	-	n/a
Due to other State agencies	-	-	n/a
Compensated absences-current portion	-	-	n/a
Deferred revenue	1,196	815	46.75%
Long-term liabilities - current portion	2,565	2,552	0.51%
Total Current liabilities	**7,848**	**7,818**	**0.38%**
Noncurrent liabilities:			
Advances from federal sponsors	404	499	-19.04%
Deposits	179	148	20.95%
Other post employment benefits	**11,486**	11,130	3.20%
Compensated absences	415	407	1.97%
Net pension liability	391	391	0.00%
Debt obligation due Commission	525	675	n/a
Leases Payable	175	322	-45.65%
Bonds Payable	36,526	38,209	-4.40%
Total Noncurrent liabilities	**50,101**	**51,781**	**-3.24%**
TOTAL LIABILITIES	**57,949**	**59,599**	**-2.77%**
Total Deferred Inflows of Resources (GASB 68)	**195**	**195**	**0.00%**
TOTAL LIABILITIES & DEFERRED INFLOWS OF RESOURCES	**58,144**	**59,794**	**-2.76%**
NET POSITION	**73,149**	**79,925**	**-8.48%**
TOTAL LIABILITIES AND NET POSITION	**$131,293**	**$139,719**	**-6.03%**

Table 2

Shepherd University

Budget to Actual Report

FY2018 - For the Quarter Ending June 30, 2018 - Pre-Audit

(Dollars in Thousands)

	Revised Annual Budget	YTD Actual	$ Variance	% Budget
OPERATING REVENUES				
Gross Tuition and Fees	$28,725	$27,880	($845)	97.1%
Scholarship Allowance	($11,810)	($11,619)	$191	98.4%
Federal Grants and Contracts	1,500	1,402	($98)	93.5%
State and Local Grants and Contracts	4,165	4,454	$289	106.9%
Private Grants and Contracts	20	-	($20)	0.0%
Sales and Services of Educational Activities	20	50	$30	250.0%
Auxiliary Enterprises *	15,250	*15,894*	$644	104.2%
Other Operating Revenues	529	431	($98)	81.5%
TOTAL OPERATING REVENUES	**38,399**	**38,492**	**$93**	**100.2%**
OPERATING EXPENSES				
Instruction	17,700	17,973	$273	101.5%
Academic Support	3,340	3,060	($280)	91.6%
Student Services	3,715	3,481	($234)	93.7%
Scholarships and Fellowships	14,310	14,631	$321	102.2%
Scholarships Allowance	(11,810)	(11,619)	$191	98.4%
Operations and Maintenance	4,410	5,340	$930	121.1%
Institutional Support	5,989	6,219	$230	103.8%
Research	245	275	$30	112.2%
Public Service	240	205	($35)	85.4%
Auxiliary Expenses	12,560	12,767	$207	101.6%
Depreciation Expense	7,250	6,629	($621)	91.4%
Transfers and Other (Additions) Subtractions	437	242	($195)	55.4%
TOTAL OPERATING EXPENSES	**58,386**	**59,203**	**$817**	**101.4%**
NONOPERATING REVENUES AND EXPENSES				
State Appropriations	9,361	9,361	$0	100.0%
Nonoperating federal revenue	5,400	5,110	($290)	94.6%
Investment Income	35	199	$164	568.6%
Interest on capital asset related debt	(1,435)	(1,428)	$7	99.5%
Loss on disposal of equipment	-	(390)	($390)	n/a
Gifts	1,500	1,658	$158	110.5%
Payments on behalf of Shepherd University	-	-	$0	n/a
Fees assessed by the Commission for interest and reserves	(38)	(18)	$20	47.6%
TOTAL NONOPERATING REVENUES AND EXPENSES	**14,823**	**14,492**	**($331)**	**97.8%**
OTHER REVENUES, EXPENSES, GAINS OR LOSSES				
Other Post Employment Benefits (OPEB) expense	(645)	(356)	(289)	55.2%
Increase (Decrease) in Net Position	**(5,809)**	**(6,575)**	**($766)**	**113.2%**

* Auxiliary Enterprises Operating Revenue includes the Potomac Place ground lease payment of $965,781.51. Auxiliary Enterprise Revenues would have been $14,928,000 - $283,000 decrease from FY2017; 1.9% decrease year over year.

Table 3

Shepherd University

Statement of Revenues, Expenses and Other Changes

FY2018 - For the Quarter Ending June 30, 2018 - Pre-Audit

(Dollars in Thousands)

	Revised Budget FY18 Annual	YTD Actual 6/30/18	YTD Actual 6/30/17	% Change	$ Change
OPERATING REVENUES					
Tuition and Fees	28,725	$27,880	$28,564	-2.4%	($684)
Scholarship Allowance	(11,810)	(11,619)	(10,990)	5.7%	(629)
Federal Grants and Contracts	1,500	1,402	1,739	-19.4%	(337)
State and Local Grants and Contracts	4,165	4,454	3,919	13.7%	535
Private Grants and Contracts	20	-	27	-100.0%	(27)
Sales and Services of Educational Activities	20	50	50	0.0%	-
Auxiliary Enterprises *	15,250	*15,894*	15,211	4.5%	683
Other Operating Revenues	529	431	672	-35.9%	(241)
TOTAL OPERATING REVENUES	**38,399**	**38,492**	**39,192**	**-1.8%**	**(700)**
OPERATING EXPENSES					
Instruction	17,700	17,973	17,873	0.6%	100
Academic Support	3,340	3,060	3,227	-5.2%	(167)
Student Services	3,715	3,481	3,487	-0.2%	(6)
Scholarships and Fellowships - net	2,500	3,012	2,164	39.2%	848
Operations and Maintenance	4,410	5,340	4,852	10.1%	488
Institutional Support	5,989	6,219	6,668	-6.7%	(449)
Research	245	275	228	20.6%	47
Public Service	240	205	244	-16.0%	(39)
Auxiliary Expenses	12,560	12,767	12,712	0.4%	55
Depreciation Expense	7,250	6,629	6,718	-1.3%	(89)
Transfers and Other (Additions) Subtractions	437	242	259	-6.6%	(17)
TOTAL OPERATING EXPENSES	**58,386**	**59,203**	**58,432**	**1.3%**	**771**
NONOPERATING REVENUES AND (EXPENSES)					
State Appropriations	9,361	9,361	9,361	0.0%	-
Nonoperating federal revenue	5,400	5,110	4,786	6.8%	324
Investment Income	35	199	116	71.6%	83
Interest on capital asset related debt	(1,435)	(1,428)	(2,192)	-34.9%	764
Loss on disposal of equipment	0	(390)	(5)	7700.0%	(385)
Gifts	1,500	1,658	1,512	9.7%	146
Payments on behalf of Shepherd University	0	-	70	-100.0%	(70)
Fees assessed by the Commission for interest and reserves	(38)	(18)	(18)	0.0%	-
TOTAL NONOPERATING REVENUES AND EXPENSES	**14,823**	**14,492**	**13,630**	**6.3%**	**862**
OTHER REVENUES, EXPENSES, GAINS OR LOSSES					
Other Post Employment Benefits (OPEB) expense	(645)	(356)	(306)	16.3%	(50)
Increase (Decrease) in Net Position	**(5,809)**	**(6,575)**	**(5,916)**	**11.1%**	**($659)**

* Auxiliary Enterprises Operating Revenue includes the Potomac Place ground lease payment of $965,781.51. Auxiliary Enterprise Revenues would have been $14,928,000 - $283,000 decrease from FY2017; 1.9% decrease year over year.

Shepherd University Board of Governors
Report to the Finance and Facilities Committee
December 13, 2018
Agenda Item No. 8-a

QUARTERLY FINANCIAL REPORT: 1ST QUARTER FY2019

Ms. Pam Stevens, Vice President for Finance, will present the quarterly financial report.

Financial results are provided in the following three reports for the 1st Quarter of FY2019:

1) Statement of Net Position
2) Budget to Actual Report
3) Statement of Revenues Expenses and Other changes which shows a quarter-to-quarter comparison to FY2018.

Overview of Comparison: 1st Quarter FY2019 compared to 1st Quarter FY2018

- **3.2%, $538,000**, decrease in Total Operating Revenues
- **6.0%, $756,000**, decrease in Total Operating Expenses
- **5.3%, $4.7 million**, decrease in Net Position
- **13.8%, $2.5 million**, decrease in Cash and Cash Equivalents
- **58.5%, $630,000**, decrease in Deferred Revenue

STATEMENT OF NET POSITION

Assets

Total Assets: **$139.4 million - 5.83%** approximate decrease; $8.6 million
Significant changes in assets from the prior year include a decrease in Cash, a decrease in Capital Assets, net of accumulated depreciation, and is partially offset by a modest increase in Grants and Contracts Receivable.

Cash and Cash Equivalents - $15.6 million - 13.8% decrease; $2.5 million

At the end of the 1st Quarter FY2019, the University had sufficient cash and other resources on hand to meet operating and capital requirements.

Days Cash: 123

While Cash balances **decreased** from 1st Quarter FY2018 to 1st Quarter FY2019 by **13.8%** to **$15.6 million**, cash increased from year-end FY2018 by **42**%, in the amount of **$4.6 million**. When analyzing the change in Cash, comparing the year-over-year change is most relevant. Cash fluctuations from quarter-to-quarter within the fiscal year are influenced by the student enrollment and payment of tuition and fees and related room and board. This occurs in the 1st and 3rd Quarters and will produce a higher ending Cash balance than is anticipated in the 2nd and 4th Quarters.

The rate of decline in enrollment is improving. However, the continuing decline in enrollment continues to negatively impact Cash. The slight increase in Tuition and Fees is offset by the decline in Auxiliary Enterprises revenue generated. Further, the outsourcing of the Bookstore to Follett and Dining Services to Chartwell's impacts both the Auxiliary Revenues and related Auxiliary Expenses. Additionally, the cash expended to complete Capital projects will further reduce the cash balances. This creates a more significant variance when compared to prior years where fewer Capital projects were completed.

State Appropriations in FY2019 increased **$311,000 (annually)**. This increase was intended to offset the increase in the wvOASIS annual fee (30%), the increase in employer cost of PEIA and to subsidize the Governor's proclamation that all State employees would be granted an average 5% pay increase equal to $2,160 per full-time employee. The Board of Governors approved the requested payroll increase, resulting in unfunded payroll expenses of approximately $750,000. The increase in the Appropriation was insufficient to fully fund any of the increased expenses.

Accounts Receivable - $1.5 million - 23% decrease; $439,000

The reduction in student receivables is a reflection of timely billing and early collection activities performed by Business Office staff. Eliminating the third party vendor for student payment plans rendered better collection results and eliminated the third party fee.

Grants and Contracts Receivable (net) - $5.2 million - 4.4% increase; $219,000

The Direct Loan disbursement to students was comparable to the prior year. However, the initial disbursement in this period was approximately $1 million higher while the second disbursement that occurs in the subsequent quarter is the reverse. The first and second disbursements in the previous year were opposite of these amounts, creating a portion of the variance.

In addition, approximately $965,000 is due from the Shepherd University Foundation Supporting Organization (SUFSO) for the Potomac Place ground lease rent payment and an insurance reimbursement is due from BRIM for the Potomac Place insurance claim ($121,000). This amount is reflected in "Grants and Contracts Receivable" on the Statement of Net Position.

Capital Assets (net) - $116.4 million - 4.3% decrease; $5.2 million

Capital Assets are presented net of Accumulated Depreciation

The 1st Quarter addition to Accumulated Depreciation is $1.6 million.

The decrease is primarily the impact of continued depreciation expense with minimal additions to Capital Assets. Continuing the effort to preserve cash flow, the University delays major capital expenditures, when possible. However, there were several urgent/unplanned projects requiring the use of cash including asbestos abatement in the Student Center and upgrades to Thacher Hall to provide a backup housing option for summer boarding in the event the Potomac Place repairs were not completed.

Liabilities

Total Liabilities: **$53.8 million - 8.1% decrease;** $4.7 million

Significant changes include increases in Accounts Payable, and decreases in Accrued Liabilities, Deferred Revenue, Other Post-Employment Benefits (OPEB) and Bonds and Leases Payable.

Accounts Payable - $1.6 million - 43.78% increase; $482,000

This is primarily the result of changes at the State level in procurement procedures which delays processing of invoice payments.

Deferred Revenue - $630,000 - 58.5% decrease; approximately $630,000.

The substantially higher amount in FY2018 at the end of the 1st Quarter was a result of the Potomac Place startup processes being developed at that time. Accurate and timely accounting of funds due to Potomac Place produces a smaller amount of Deferred Revenue at the end of the 1st Quarter FY2019.

Bonds and Leases Payable - $39.4 million - 3.8% decrease; $1.6 million

Bonds and Leases Payable balances continue to **decline** due to the payment of principle for these obligations and the lack of additional debt.

STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES

Operating Revenues: $16.5 million - 3.2% decrease; $538,000

The University's Operating Revenues continue to decline year-over year. Operating Revenues are **down 3.2%,** compared to the 1st Quarter 2018. However, when comparing Operating Revenues from the 1st Quarter FY2018 to the 1st Quarter FY2017, the decrease was **10.7%.**

Tuition and Fee Revenue (net) - $8.0 million - 2.3% increase; $179,000

The Tuition and Fee Revenue increase directly relates to an improvement in the retention rate and increased recruitment efforts in counties of our surrounding states. **As indicated in prior reports, the rate of decline is slowing as recruitment and retention efforts produce positive results. The increase is further impacted by the mix of in-state and out-of-state students and the increase in Tuition and Fee rate for FY2019.**

Auxiliary Enterprises Revenue - $6.4 million - 8.3% decrease; $578,000

This is a result of outsourcing the Bookstore and Dining Services and is offset by the reduction in Auxiliary Enterprises Expenses.

Operating Expenses: $11.8 million - 6% decrease; $756,000

The University expended **23.1%** of budgeted Operating Expenses at the end of the 1st Quarter FY2019. Primary Mission Costs for ***Instruction, Student Services, Operations and Maintenance*** and ***Scholarships and Fellowships*** are **less than 25% of budget year-to-date** at the end of the 1st Quarter FY2019. ***Academic Support*** and ***Institutional Support*** increased to **29.1%** and **27.4%** of budget, respectively.

Instruction expense for the 1st Quarter is the largest dollar increase, when comparing 1st Quarter, FY2018 to FY2019 results. This variance reflects a combination of the faculty tenure promotion salary increases and the number of faculty and staff receiving the average 5% pay increase. Return of faculty and students may require up-front expenditures that further inflate the 1st Quarter percentages.

Non-Operating Revenues and Expenses:

Total Non-Operating Revenues and Expenses for the 1st Quarter FY2019 are **down by 2.1%, $106,000**, compared to 1st Quarter FY2018.

State Appropriations - $2.4 million - 3.3% increase; $77,647 per quarter, as a result of additional State support for the current fiscal year. This increase was granted to partially fund the Governor proclaimed 5% average pay increase ($2,160 per full-time employee).

Non-Operating Federal Revenue - $2 million - 17.9% decrease; $450,000
This line is for **PELL**.

Gifts - $639,000 - 27.5% increase; $138,000. This revenue is generated by contributions from the Foundation. The majority is in the form of student scholarships.

Other Revenues, Expenses, Gains or Losses

GASB75, implemented in FY2018, resulted in an adjustment for prior years' accrual to Other Post-Employment Benefits (OPEB). In addition, there is no expense accrual reported for the 1st Quarter of FY2019 for OPEB. This compares to the 1st Quarter FY2018 amount of $119,000. No actuarial information is available until year-end.

Summary:

Total Net Assets: $84.6 million - 5.3% decrease; $5.3 million.
This change continues to be driven by the University's decline in significant capital investments and decline in enrollment.

Table 1

Shepherd University
Statement of Net Position
FY19 - For the Quarter Ending September 30, 2018
(Dollars in Thousands)

	QTD Actual 9/30/18	QTD Actual 9/30/17	% Change
ASSETS			
Current assets:			
Cash and cash equivalents	15,633	18,142	-13.83%
Accounts receivable net	1,464	1,903	-23.07%
Grants and contracts receivable, net	5,216	4,997	4.38%
Due from the Commission	-	-	n/a
Inventories	3	603	-99.50%
Loans Receivable	100	100	0.00%
Other assets	-	2	-100.00%
Total Current assets	**22,416**	**25,747**	**-12.94%**
Noncurrent assets:			
Restricted cash and cash equivalents	5	1	400.00%
Investments	-	-	n/a
Loans receivable, net	320	368	-13.04%
Capital assets net	116,401	121,620	-4.29%
Other Noncurrent assets	218	255	-14.5%
Total Noncurrent assets	**116,944**	**122,244**	**-4.34%**
TOTAL ASSETS	**$139,360**	**$147,991**	**-5.83%**
Total Deferred Outflows of Resources (GASB 68)	**$847**	**$88**	**862.50%**
TOTAL ASSETS & DEFERRED OUTFLOWS	**$140,207**	**$148,079**	**-5.32%**
LIABILITIES			
Current liabilities:			
Accounts payable	1,583	1,101	43.78%
Accrued liabilities	1,897	2,084	-8.97%
Due to the Commission	-	-	n/a
Due to other State agencies	-	-	n/a
Deferred revenue	447	1,077	-58.50%
Long-term liabilities - current portion	2,732	2,502	9.19%
Total Current liabilities	**6,659**	**6,764**	**-1.55%**
Noncurrent liabilities:			
Advances from federal sponsors	303	499	-39.28%
Deposits	182	179	1.68%
Other post employment benefits	9,007	11,249	-19.93%
Compensated absences	428	342	25.15%
Net pension liability	267	391	-31.71%
Debt obligation due Commission	300	675	n/a
Leases Payable	175	289	-39.45%
Bonds Payable	36,526	38,208	-4.40%
Total Noncurrent liabilities	**47,188**	**51,832**	**-8.96%**
TOTAL LIABILITIES	**53,847**	**58,596**	**-8.10%**
Total Deferred Inflows of Resources (GASB 68)	**1,798**	**195**	**822.05%**
TOTAL LIABILITIES & DEFERRED INFLOWS OF RESURCES	**55,645**	**58,791**	**-5.35%**
NET POSITION	**84,562**	**89,288**	**-5.29%**
TOTAL LIABILITIES AND NET POSITION	**$140,207**	**$148,079**	**-5.32%**

Table 2

Shepherd University

Budget to Actual Report

FY19 - For the Quarter Ending September 30, 2018

(Dollars in Thousands)

	Revised Annual Budget	YTD Actual	$ Variance	% Budget
OPERATING REVENUES				
Tuition and Fees	$14,960	$8,044	$6,916	53.8%
Federal Grants and Contracts	1,716	326	1,390	19.0%
State and Local Grants and Contracts	3,868	1,549	2,319	40.0%
Private Grants and Contracts	38	-	38	0.0%
Sales and Services of Educational Activities	24	-	24	0.0%
Auxiliary Enterprises	11,005	6,402	4,603	58.2%
Other Operating Revenues	330	211	119	63.9%
TOTAL OPERATING REVENUES	**31,941**	**16,532**	**15,409**	**51.8%**
OPERATING EXPENSES				
Instruction	17,336	3,571	13,765	20.6%
Academic Support	3,082	896	2,186	29.1%
Student Services	3,394	821	2,573	24.2%
Scholarships & Fellowships	2,270	35	2,235	1.5%
Operations and Maintenance	4,118	820	3,298	19.9%
Institutional Support	5,962	1,636	4,326	27.4%
Research	200	90	110	45.0%
Public Service	138	53	85	38.4%
Auxiliary Expenses	7,820	2,259	5,561	28.9%
Depreciation Expense	6,500	1,597	4,903	24.6%
Transfers and Other (Additions) Subtractions	220	-	220	0.0%
TOTAL OPERATING EXPENSES	**51,040**	**11,778**	**39,262**	**23.1%**
NONOPERATING REVENUES AND EXPENSES				
State Appropriations	9,672	2,418	7,254	25.0%
Nonoperating federal revenue	5,000	2,066	2,934	41.3%
Investment Income	180	36	144	20.0%
Interest on capital asset related debt	(1,374)	(232)	(1,142)	16.9%
Loss on disposal of equipment	-	-	-	n/a
Gifts	1,600	639	961	39.9%
Payments on behalf of Shepherd University	-	-	-	n/a
Fees assessed by the Commission for interest and reserves	(38)	(9)	(29)	23.8%
TOTAL NONOPERATING REVENUES AND EXPENSES	**15,040**	**4,918**	**10,122**	**32.7%**
OTHER REVENUES, EXPENSES, GAINS OR LOSSES				
Other Post Employment Benefits (OPEB) expense	-	-	-	n/a
Increase (Decrease) in Net Position	**(4,059)**	**9,672**	**(13,731)**	**-238.3%**

Table 3

Shepherd University

Statement of Revenues, Expenses and Other Changes

FY19 - For the Quarter Ending September 30, 2018

(Dollars in Thousands)

	Revised Budget FY19 Annual	YTD Actual 9/30/18	YTD Actual 9/30/17	% Change	$ Change
OPERATING REVENUES					
Tuition and Fees	14,960	$8,044	$7,865	2.3%	$179
Federal Grants and Contracts	1,716	326	292	11.6%	34
State and Local Grants and Contracts	3,868	1,549	1,603	-3.4%	(54)
Private Grants and Contracts	38	-	-	n/a	-
Sales and Services of Educational Activities	24	-	-	n/a	-
Auxiliary Enterprises	11,005	6,402	6,980	-8.3%	(578)
Other Operating Revenues	330	211	330	-36.1%	(119)
TOTAL OPERATING REVENUES	**31,941**	**16,532**	**17,070**	-3.2%	**(538)**
OPERATING EXPENSES					
Instruction	17,336	3,571	3,294	8.4%	277
Academic Support	3,082	896	893	0.3%	3
Student Services	3,394	821	814	0.9%	7
Scholarships & Fellowships	2,270	35	99	-64.6%	(64)
Operations and Maintenance	4,118	820	985	-16.8%	(165)
Institutional Support	5,962	1,636	1,662	-1.6%	(26)
Research	200	90	46	95.7%	44
Public Service	138	53	70	-24.3%	(17)
Auxiliary Expenses	7,820	2,259	2,953	-23.5%	(694)
Depreciation Expense	6,500	1,597	1,657	-3.6%	(60)
Transfers and Other (Additions) Subtractions	220	-	61	-100.0%	(61)
TOTAL OPERATING EXPENSES	**51,040**	**11,778**	**12,534**	-6.0%	**(756)**
NONOPERATING REVENUES AND EXPENSES					
State Appropriations	9,672	2,418	2,340	3.3%	78
Nonoperating federal revenue	5,000	2,066	2,516	-17.9%	(450)
Investment Income	180	36	30	20.0%	6
Interest on capital asset related debt	(1,374)	(232)	(363)	-36.1%	131
Loss on disposal of equipment	0	-	-	n/a	-
Gifts	1,600	639	501	27.5%	138
Payments on behalf of Shepherd University	0	-	-	n/a	-
Fees assessed by the Commission for interest and re	(38)	(9)	-	n/a	(9)
TOTAL NONOPERATING REVENUES AND EX	**15,040**	**4,918**	**5,024**	**-2.1%**	**(106)**
OTHER REVENUES, EXPENSES, GAINS OR LOSSES					
Other Post Employment Benefits (OPEB) expense	0	-	(119)	-100.0%	119
Increase (Decrease) in Net Position	**(4,059)**	**9,672**	**9,441**	**-99.2%**	**$231**

Shepherd University Board of Governors
Report to the Finance and Facilities Committee
February 14, 2019
Agenda Item No. 7-a

QUARTERLY FINANCIAL REPORT: 2nd QUARTER FY2019

Ms. Pam Stevens, Vice President for Finance, will present the quarterly financial report.

Financial results are provided in the following three reports for the 2nd Quarter of FY2019:

1) Statement of Net Position
2) Budget to Actual Report
3) Statement of Revenues Expenses and Other changes which shows a quarter-to-quarter comparison to FY2018.

Overview of Comparison: 2nd Quarter FY2019 compared to 2nd Quarter FY2018

- **3.6%, $677,000**, decrease in Total Operating Revenues
- **1.9%, $546,000**, decrease in Total Operating Expenses
- **5.4%, $4.1 million**, decrease in Net Position
- **16.6%, $2.5 million**, decrease in Cash and Cash Equivalents
- **10,400%, $312,000,** increase in Other Assets

STATEMENT OF NET POSITION

Assets

Total Assets: **$144.1 million - 5.19%** approximate decrease; $7.9 million
Significant changes in assets from the prior year include a decrease in Cash, a decrease in Capital Assets, net of accumulated depreciation, and a decrease in Grants and Contracts Receivable.

Cash and Cash Equivalents - $12.8 million - 16.6% decrease; $2.5 million

At the end of the 2nd Quarter FY2019, the University had sufficient cash and other resources on hand to meet operating and capital requirements.

Days Cash: 98

While Cash balances **decreased** from 2nd Quarter FY2018 to 2nd Quarter FY2019 by **16.6%** to **$12.8 million**, cash increased from year-end FY2018 by **16.4**%, in the amount of **$1.7 million**.

Accounts Receivable - $14.9 million - 1.71% decrease; $259,000
The reduction in student receivables is a reflection of timely billing and early collection activities performed by Business Office staff. Eliminating the third party vendor for student payment plans rendered better collection results, fee revenue for the University and eliminated the third party fee expense.

Grants and Contracts Receivable (net) - $387,000 - 24.85% decrease; $128,000

The decrease is created in part by the timely billing of grants, such as TRiO, and third party contracts such as VA programs and WV Division of Rehabilitation Services. In addition, the Potomac Place billing and reimbursement process has now been in place for a full year. The prompt preparation of billing and receipt of funds has improved for this activity.

Other Assets - $315,000 - 10,400% increase; $312,000

This amount is the prepayment to Chartwells per the contract agreement representing the last three weeks of dining earnings for the spring semester.

Capital Assets (net) - $115.1 million - 3.9% decrease; $4.7 million

Capital Assets are stated net of Accumulated Depreciation

The 2nd Quarter addition to Accumulated Depreciation is $3.2 million, which decreases the Capital Assets stated net of Depreciation from December 2017 to December 2018.

Continuing the effort to preserve cash flow, the University delays major capital expenditures, when possible.

Liabilities

Total Liabilities: **$70.5 million - 6.2% decrease;** $4.6 million

Significant changes include increases in Accounts Payable, Accrued Liabilities and decreases in Deferred Revenue, Other Post-Employment Benefits (OPEB) and Bonds and Leases Payable.

Accounts Payable - $913,000 - 35.3% increase; $238,000

This is primarily the result of changes at the State level in procurement procedures which delays processing of invoice payments.

Bonds and Leases Payable - $38.5 million - 4.1% decrease; $1.6 million

Bonds and Leases Payable balances continue to **decline** due to the payment of principle for these obligations and the lack of additional debt.

STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES

Operating Revenues: $18.3 million - 3.6% decrease; $677,000

The University's Operating Revenues continue to decline year-over year. Operating Revenues are **down 3.6%,** compared to the 2nd Quarter 2018.

Tuition and Fee Revenue (net) - $8.1 million - .5% decrease; $39,000

The University earned 57.4% of budgeted Operating Revenues at the end of the 2nd Quarter FY2019. As indicated in prior reports, the rate of decline compared to FY2018 is slowing as recruitment and retention efforts produce positive results. The increase is further impacted by the mix of in-state and out-of-state students and the increase in Tuition and Fee rates for FY2019.

Auxiliary Enterprises Revenue - $6.97 million - 11.6% decrease; $912,000

This is a result of outsourcing the Bookstore (Follett) and Dining Services (Chartwells) and should be reviewed in conjunction with the comparable reduction in Auxiliary Enterprises Expenses. Going forward, Auxiliary Revenue will consist largely of the commission revenue from these contract operations.

Operating Expenses: $28.2 million - 1.9% decrease; $546,000

The University expended **55.2%** of budgeted Operating Expenses at the end of the 2nd Quarter FY2019. Primary Mission Costs for ***Instruction, Student Services, Operations and Maintenance, Institutional Support*** and ***Depreciation*** reflect **less than 55% of budget year-to-date** at the end of the 2nd Quarter FY2019. ***Academic Support***, ***Public Service, Research*** and ***Scholarships and Fellowships*** expenses are in **excess of 55%** of budget at this measurement.

Auxiliary Expenses - $5.7 million - 10.8% decrease ($691,000)

Non-Operating Revenues and Expenses: $7.6 million - 11.1% increase; $759,000

State Appropriations - $4.8 million - 3.3% increase; $77,647 per quarter, as a result of additional State support for the current fiscal year.

Non-Operating Federal Revenue - $2.6 million - .7% decrease; $19,000

This line is for **PELL**.

Gifts - $761,000 - 13.1% increase; $88,000. This revenue is generated by contributions from the Foundation. The majority represents the funding of student scholarships.

Other Revenues, Expenses, Gains or Losses:

GASB75, implemented in FY2018, resulted in an adjustment for prior years' accrual to OPEB. In addition, there is no expense accrual reported for the 2nd Quarter of FY2019 for OPEB. This compares to the 2nd Quarter FY2018 amount of $238,000. No actuarial information is available until year-end.

Summary:

Total Net Position: $72.7 million - 5.35% decrease; $4.1 million.

This change continues to be driven by the University's decline in significant capital investments and decline in enrollment.

Table 1

Shepherd University

Statement of Net Position

As of December 31, 2018 and 2017

(Dollars in Thousands)

	12/31/18	12/31/17	% Change
ASSETS			
Current assets:			
Cash and cash equivalents	12,758	15,298	-16.60%
Accounts receivable net	14,881	15,140	-1.71%
Grants and contracts receivable, net	387	515	-24.85%
Due from the Commission	-	-	n/a
Inventories	1	476	-99.79%
Loans Receivable	100	100	0.00%
Other assets	315	3	10400.00%
Total Current assets	**28,442**	**31,532**	**-9.80%**
Noncurrent assets:			
Restricted cash and cash equivalents	2	2	0.00%
Investments	-	-	n/a
Loans receivable, net	283	320	-11.56%
Capital assets net	115,144	119,870	-3.94%
Other Noncurrent assets	218	255	-14.5%
Total Noncurrent assets	**115,647**	**120,447**	**-3.99%**
TOTAL ASSETS	**$144,089**	**$151,979**	**-5.19%**
Total Deferred Outflows of Resources (GASB 68)	**$847**	**$88**	**862.50%**
TOTAL ASSETS & DEFERRED OUTFLOWS	**$144,936**	**$152,067**	**-4.69%**
LIABILITIES			
Current liabilities:			
Accounts payable	913	675	35.26%
Accrued liabilities	3,054	3,029	0.83%
Due to the Commission	-	-	n/a
Due to other State agencies	-	-	n/a
Deferred revenue	17,610	17,719	-0.62%
Long-term liabilities - current portion	2,733	2,511	8.84%
Total Current liabilities	**24,310**	**23,934**	**1.57%**
Noncurrent liabilities:			
Advances from federal sponsors	159	499	-68.14%
Deposits	174	161	8.07%
Other post employment benefits	9,007	11,367	-20.76%
Compensated absences	428	384	11.46%
Net pension liability	267	391	-31.71%
Debt obligation due Commission	300	675	n/a
Leases Payable	114	265	-56.98%
Bonds Payable	35,692	37,403	-4.57%
Total Noncurrent liabilities	**46,141**	**51,145**	**-9.78%**
TOTAL LIABILITIES	**70,451**	**75,079**	**-6.16%**
Total Deferred Inflows of Resources (GASB 68)	**1,798**	**195**	**822.05%**
TOTAL LIABILITIES & DEFERRED INFLOWS OF RESOURCES	**72,249**	**75,274**	**-4.02%**
NET POSITION	**72,687**	**76,793**	**-5.35%**
TOTAL LIABILITIES AND NET POSITION	**$144,936**	**$152,067**	**-4.69%**

Table 2

Shepherd University

Budget to Actual Report

For the Quarter Ending December 31, 2018

(Dollars in Thousands)

	Annual Budget	YTD Actual	$ Variance	% Budget
OPERATING REVENUES				
Tuition and Fees	$14,960	$8,110	$6,850	54.2%
Federal Grants and Contracts	1,716	569	1,147	33.2%
State and Local Grants and Contracts	3,868	2,365	1,503	61.1%
Private Grants and Contracts	38	-	38	0.0%
Sales and Services of Educational Activities	24	15	9	62.5%
Auxiliary Enterprises	11,005	6,965	4,040	63.3%
Other Operating Revenues	330	307	23	93.0%
TOTAL OPERATING REVENUES	**31,941**	**18,331**	**13,610**	**57.4%**
OPERATING EXPENSES				
Instruction	17,336	9,075	8,261	52.3%
Academic Support	3,082	1,702	1,380	55.2%
Student Services	3,394	1,685	1,709	49.6%
Scholarships & Fellowships	2,270	1,375	895	60.6%
Operations and Maintenance	4,118	2,119	1,999	51.5%
Institutional Support	5,962	3,027	2,935	50.8%
Research	200	134	66	67.0%
Public Service	138	108	30	78.3%
Auxiliary Expenses	7,820	5,731	2,089	73.3%
Depreciation Expense	6,500	3,196	3,304	49.2%
Transfers and Other (Additions) Subtractions	220	-	220	0.0%
TOTAL OPERATING EXPENSES	**51,040**	**28,152**	**22,888**	**55.2%**
NONOPERATING REVENUES AND EXPENSES				
State Appropriations	9,672	4,836	4,836	50.0%
Nonoperating federal revenue	5,000	2,594	2,406	51.9%
Investment Income	180	87	93	48.3%
Interest on capital asset related debt	(1,374)	(693)	(681)	50.4%
Loss on disposal of equipment	-	(1)	1	n/a
Gifts	1,600	761	839	47.6%
Payments on behalf of Shepherd University	-	-	-	n/a
Fees assessed by the Commission for interest and reserves	(38)	(9)	(29)	23.8%
TOTAL NONOPERATING REVENUES AND EXPENSES	**15,040**	**7,575**	**7,465**	**50.4%**
OTHER REVENUES, EXPENSES, GAINS OR LOSSES				
Other Post Employment Benefits (OPEB) expense	-	-	-	n/a
Increase (Decrease) in Net Position	**(4,059)**	**(2,246)**	**(1,813)**	**55.3%**

Table 3

Shepherd University

Statement of Revenues, Expenses and Other Changes

For the Quarters Ending December 31, 2018 and 2017

(Dollars in Thousands)

	Budget FY19 Annual	YTD Actual 12/31/18	YTD Actual 12/31/17	% Change	$ Change
OPERATING REVENUES					
Tuition and Fees	14,960	$8,110	$8,149	-0.5%	($39)
Federal Grants and Contracts	1,716	569	553	2.9%	16
State and Local Grants and Contracts	3,868	2,365	2,125	11.3%	240
Private Grants and Contracts	38	-	-	n/a	-
Sales and Services of Educational Activities	24	15	18	-16.7%	(3)
Auxiliary Enterprises	11,005	6,965	7,877	-11.6%	(912)
Other Operating Revenues	330	307	286	7.3%	21
TOTAL OPERATING REVENUES	**31,941**	**18,331**	**19,008**	-3.6%	**(677)**
OPERATING EXPENSES					
Instruction	17,336	9,075	8,888	2.1%	187
Academic Support	3,082	1,702	1,695	0.4%	7
Student Services	3,394	1,685	1,740	-3.2%	(55)
Scholarships & Fellowships	2,270	1,375	1,030	33.5%	345
Operations and Maintenance	4,118	2,119	2,149	-1.4%	(30)
Institutional Support	5,962	3,027	3,112	-2.7%	(85)
Research	200	134	72	86.1%	62
Public Service	138	108	117	-7.7%	(9)
Auxiliary Expenses	7,820	5,731	6,422	-10.8%	(691)
Depreciation Expense	6,500	3,196	3,352	-4.7%	(156)
Transfers and Other (Additions) Subtractions	220	-	121	-100.0%	(121)
TOTAL OPERATING EXPENSES	**51,040**	**28,152**	**28,698**	-1.9%	**(546)**
NONOPERATING REVENUES AND EXPENSES					
State Appropriations	9,672	4,836	4,681	3.3%	155
Nonoperating federal revenue	5,000	2,594	2,613	-0.7%	(19)
Investment Income	180	87	71	22.5%	16
Interest on capital asset related debt	(1,374)	(693)	(842)	-17.7%	149
Loss on disposal of equipment	0	(1)	(380)	-99.7%	379
Gifts	1,600	761	673	13.1%	88
Payments on behalf of Shepherd University	0	-	-	n/a	-
Fees assessed by the Commission for interest and reserves	(38)	(9)	-	n/a	(9)
TOTAL NONOPERATING REVENUES AND EXPENSES	**15,040**	**7,575**	**6,816**	**11.1%**	**759**
OTHER REVENUES, EXPENSES, GAINS OR LOSSES					
Other Post Employment Benefits (OPEB) expense	0	-	(238)	-100.0%	238
Increase (Decrease) in Net Position	**(4,059)**	**(2,246)**	**(3,112)**	**-90.5%**	**$866**

Shepherd University Board of Governors
Report to the Finance and Facilities Committee
June 13, 2019
Agenda Item No. 8-a

QUARTERLY FINANCIAL REPORT: 3RD QUARTER FY2019

Financial results are provided in the following three reports for the 3rd Quarter of FY2019:

1) Statement of Revenues, Expense and Other changes – FY2019 compared to FY2018
2) Budget to Actual Report
3) Statement of Net Position

Overview of Comparison: 3rd Quarter FY2019 compared to 3rd Quarter FY2018

- **2.5%, $875,000**, decrease in Total Operating Revenues
- **2.9%, $1.3 million**, decrease in Total Operating Expenses
- **16.83%, $3.0 million**, decrease in Cash and Cash Equivalents
- **6.6%, $5.5 million**, decrease in Net Position

STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES

Operating Revenues: $33.6 million – Decreased

Tuition and Fee Revenue – $27.2 million – 1% increase; $231,000

The mix between In-State (lower) and Out-of-State (higher) students offsets the decrease in Full-time equivalent (FTE), which nets a small increase in Tuition and Fee Revenue. The increase in course fees further contributes to the increase when compared year-over-year.

Scholarship Allowance – $11.6 million – 2.6% decrease; ($306,000)

The 3rd Quarter FY2019 allowance is lower than the 3rd Quarter FY2018, a result of fewer institutional and financial aid resources awarded to students in accordance with the decline in the number of students.

Auxiliary Enterprises Revenue – $12.5 million – 10.6% decrease; ($1.48) million

The 3rd Quarter FY2019 Auxiliary Enterprises Revenue is lower than the 3rd Quarter FY2018, as a result of the outsourcing of both the bookstore and dining services. Auxiliary Enterprise expenses are, likewise, lower in this quarter of FY2019.

Operating Expenses: $43.7 million – Decreased

The 3rd Quarter FY2019 Operating Expenses total **85.7%** of the FY2019 budget.

Auxiliary Enterprises Expense – $8.5 million – 14.9% decrease; ($1.5) million

Operating Expenses decreased **2.9%**; **$1.3 million**, for 3rd Quarter FY2019 as compared to the same period in FY2018, with the most significant decrease in Auxiliary Expenses. As noted above in Auxiliary Enterprises Revenue, the outsourcing of dining services resulted in a change. Both amounts decreased by nearly $1.5 million.

Non-Operating Revenues and Expenses: $12.3 million – Increased

Total Non-Operating Revenues and Expenses for the 3rd Quarter FY2019 compared to 3rd Quarter FY2018 – **1%** increase**; $119,000**.

Interest on capital asset related debt **– 22.4%** decrease; **$189,000** year-over-year. As principal debt balances are decreased, the related interest expense is decreasing each year.

Non-Operating Federal Revenue – **1%** decrease; **$52,000, due to a decrease in PELL**.

Gifts Revenue – **36.4%** decrease; **$489,000**, year-over-year. This revenue is generated by contributions from the Foundation. The majority is in the form of student scholarships. Not all funding was received at the end of this quarter. However, overall gifts are anticipated to be similar to FY2018 revenue amounts.

Other Revenues, Expenses, Gains or Losses: ($356,000) – (Expenses) Decreased

Other Post-Employment Benefits (OPEB) – This is reported at year-end only upon receipt of actuarial information from the State Capitol, which is required in order to calculate the increase or reduction to the OPEB liability.

STATEMENT OF NET POSITION

Assets

Total Assets: **$131.7 million** – 6.02% approximate decrease; $8.44 million

The decrease in Total Assets results from decreases in Cash, Accounts Receivable, Inventories, and Capital Assets, net of accumulated depreciation. Cash and Accounts Receivable continue to decline with the enrollment decline, recognizing that the rate of decline has slowed. Inventories are significantly less due to the outsourcing of the bookstore and dining services. Capital Assets, net, continue to decline due to depreciation without adding significant new assets.

Cash and Cash Equivalents: $14.9 million – 16.83% decrease; $3.0 million

Days Cash on Hand at March 31, 2019: 104

At the end of the 3rd Quarter FY2019; the University had sufficient cash and other resources on hand to meet operating and capital requirements.

Accounts Receivable: $784,000 – 17.21% decrease; $163,000

The decrease in Accounts Receivable reflects an improvement in early collection of student accounts as well as in-house management of short-term payment contracts.

Grant and Contract Receivables: $1,406 million – 116.6% increase; $757,000

The increase for Grants and Contracts Receivable is the result of timely grant billings. Approximately $600,000 in Promise and WV Grant spring funds were received in April of last year, however, spring 2019 awards were received in March of this year.

Inventories: $2,000 – 99.17% decrease; $240,000

Outsourcing of bookstore and dining services results in inventory declines.

Capital Assets Net: $113.8 million – 4.97% decrease; $5.9 million

Capital Assets are presented net of Accumulated Depreciation,

The FY2019 year-to-date Accumulated Depreciation at the end of the 3rd Quarter is **$4.8 million**.

The University continues to defer major capital expenditures in the ongoing effort to preserve cash flow.

Liabilities

Total Liabilities: **$53.6 million** – 6.64% decrease; $3.8 million

The decrease in Bonds Notes and Leases Payable is offset by small increases in Accounts Payable, Accrued Liabilities and Deferred Revenue.

Summary:

Total Net Position: $77.2 million – 6.6% decrease; $5.5 million

The decline in State appropriation, enrollment, and significant capital investments explain this decrease as compared to **$82.7 million** 3rd Quarter FY2018.

Table 1

Shepherd University
Statement of Net Position
As of March 31, 2019 and 2018
(Dollars in Thousands)

	3/31/19	3/31/18	% Change
ASSETS			
Current assets:			
Cash and cash equivalents	14,850	17,854	-16.83%
Accounts receivable net	784	947	-17.21%
Grants and contracts receivable, net	1,406	649	116.64%
Due from the Commission	-	-	n/a
Inventories	2	242	-99.17%
Loans Receivable	100	100	0.00%
Other assets	313	-	n/a
Total Current assets	**17,455**	**19,792**	**-11.81%**
Noncurrent assets:			
Restricted cash and cash equivalents	3	2	50.00%
Investments	-	-	n/a
Loans receivable, net	230	342	-32.75%
Capital assets net	113,791	119,738	-4.97%
Other Noncurrent assets	209	253	-17.4%
Total Noncurrent assets	**114,233**	**120,335**	**-5.07%**
TOTAL ASSETS	**$131,688**	**$140,127**	**-6.02%**
Total Deferred Outflows of Resources (GASB 68)	**$847**	**$88**	**862.50%**
TOTAL ASSETS & DEFERRED OUTFLOWS	**$132,535**	**$140,215**	**-5.48%**
LIABILITIES			
Current liabilities:			
Accounts payable	934	669	39.61%
Accrued liabilities	3,133	2,853	9.81%
Due to the Commission	-	-	n/a
Due to other State agencies	-	-	n/a
Deferred revenue	381	182	109.34%
Long-term liabilities - current portion	2,781	2,528	10.01%
Total Current liabilities	**7,229**	**6,232**	**16.00%**
Noncurrent liabilities:			
Advances from federal sponsors	404	499	-19.04%
Deposits	167	174	-4.02%
Other post employment benefits	9,007	11,486	-21.58%
Compensated absences	496	432	14.81%
Net pension liability	267	391	-31.71%
Debt obligation due Commission	225	525	n/a
Leases Payable	65	216	-69.91%
Bonds Payable	35,692	37,403	-4.57%
Total Noncurrent liabilities	**46,323**	**51,126**	**-9.39%**
TOTAL LIABILITIES	**53,552**	**57,358**	**-6.64%**
Total Deferred Inflows of Resources (GASB 68)	**1,798**	**195**	**822.05%**
TOTAL LIABILITIES & DEFERRED INFLOWS OF RESOURCES	**55,350**	**57,553**	**-3.83%**
NET POSITION	**77,185**	**82,662**	**-6.63%**
TOTAL LIABILITIES AND NET POSITION	**$132,535**	**$140,215**	**-5.48%**

Table 2

Shepherd University

Budget to Actual Report

For the Quarter Ending March 31, 2019

(Dollars in Thousands)

	Annual Budget	YTD Actual	$ Variance	% Budget
OPERATING REVENUES				
Tuition and Fees	$14,960	$15,548	($588)	103.9%
Federal Grants and Contracts	1,716	790	926	46.0%
State and Local Grants and Contracts	3,868	4,258	(390)	110.1%
Private Grants and Contracts	38	-	38	0.0%
Sales and Services of Educational Activities	24	20	4	83.3%
Auxiliary Enterprises	11,005	12,503	(1,498)	113.6%
Other Operating Revenues	330	513	(183)	155.5%
TOTAL OPERATING REVENUES	**31,941**	**33,632**	**(1,691)**	**105.3%**
OPERATING EXPENSES				
Instruction	17,336	14,165	3,171	81.7%
Academic Support	3,082	2,417	665	78.4%
Student Services	3,394	2,568	826	75.7%
Scholarships & Fellowships	2,270	2,264	6	99.7%
Operations and Maintenance	4,118	3,414	704	82.9%
Institutional Support	5,962	5,169	793	86.7%
Research	200	210	(10)	105.0%
Public Service	138	174	(36)	126.1%
Auxiliary Expenses	7,820	8,529	(709)	109.1%
Depreciation Expense	6,500	4,809	1,691	74.0%
Transfers and Other (Additions) Subtractions	220	-	220	0.0%
TOTAL OPERATING EXPENSES	**51,040**	**43,719**	**7,321**	**85.7%**
NONOPERATING REVENUES AND EXPENSES				
State Appropriations	9,672	7,254	2,418	75.0%
Nonoperating federal revenue	5,000	4,917	83	98.3%
Investment Income	180	369	(189)	205.0%
Interest on capital asset related debt	(1,374)	(1,033)	(341)	75.2%
Loss on disposal of equipment	-	(1)	1	n/a
Gifts	1,600	853	747	53.3%
Payments on behalf of Shepherd University	-	-	-	n/a
Fees assessed by the Commission for interest and reserves	(38)	(19)	(19)	50.2%
TOTAL NONOPERATING REVENUES AND EXPENSES	**15,040**	**12,340**	**2,700**	**82.0%**
OTHER REVENUES, EXPENSES, GAINS OR LOSSES				
Other Post Employment Benefits (OPEB) expense	-	-	-	n/a
Increase (Decrease) in Net Position	**(4,059)**	**2,253**	**(6,312)**	**-55.5%**

Table 3

Shepherd University

Statement of Revenues, Expenses and Other Changes

For the Quarters Ending March 31, 2019 and 2018

(Dollars in Thousands)

	Budget FY19 Annual	YTD Actual 3/31/19	YTD Actual 3/31/18	% Change	$ Change
OPERATING REVENUES					
Tuition and Fees	14,960	$15,548	$15,011	3.6%	$537
Federal Grants and Contracts	1,716	790	934	-15.4%	(144)
State and Local Grants and Contracts	3,868	4,258	3,943	8.0%	315
Private Grants and Contracts	38	-	-	n/a	-
Sales and Services of Educational Activities	24	20	24	-16.7%	(4)
Auxiliary Enterprises	11,005	12,503	13,980	-10.6%	(1,477)
Other Operating Revenues	330	513	615	-16.6%	(102)
TOTAL OPERATING REVENUES	**31,941**	**33,632**	**34,507**	-2.5%	**(875)**
OPERATING EXPENSES					
Instruction	17,336	14,165	14,220	-0.4%	(55)
Academic Support	3,082	2,417	2,400	0.7%	17
Student Services	3,394	2,568	2,520	1.9%	48
Scholarships & Fellowships	2,270	2,264	2,113	7.1%	151
Operations and Maintenance	4,118	3,414	3,574	-4.5%	(160)
Institutional Support	5,962	5,169	4,660	10.9%	509
Research	200	210	147	42.9%	63
Public Service	138	174	162	7.4%	12
Auxiliary Expenses	7,820	8,529	10,022	-14.9%	(1,493)
Depreciation Expense	6,500	4,809	5,027	-4.3%	(218)
Transfers and Other (Additions) Subtractions	220	-	182	-100.0%	(182)
TOTAL OPERATING EXPENSES	**51,040**	**43,719**	**45,027**	-2.9%	**(1,308)**
NONOPERATING REVENUES AND EXPENSES					
State Appropriations	9,672	7,254	7,021	3.3%	233
Nonoperating federal revenue	5,000	4,917	4,969	-1.0%	(52)
Investment Income	180	369	131	181.7%	238
Interest on capital asset related debt	(1,374)	(1,033)	(844)	22.4%	(189)
Loss on disposal of equipment	0	(1)	(380)	-99.7%	379
Gifts	1,600	853	1,342	-36.4%	(489)
Payments on behalf of Shepherd University	0	-	-	n/a	-
Fees assessed by the Commission for interest and reserves	(38)	(19)	(18)	5.6%	(1)
TOTAL NONOPERATING REVENUES AND EXPENSES	**15,040**	**12,340**	**12,221**	**1.0%**	**119**
OTHER REVENUES, EXPENSES, GAINS OR LOSSES					
Other Post Employment Benefits (OPEB) expense	0	-	(356)	-100.0%	356
Increase (Decrease) in Net Position	**(4,059)**	**2,253**	**1,345**	**-98.7%**	**$908**

Shepherd University Board of Governors
Report to the Finance and Facilities Committee
September 19, 2019
Agenda Item No. 9-a

QUARTERLY FINANCIAL REPORT: 4th QUARTER FY2019 (Pre-audit)

Ms. Pam Stevens, Vice President for Finance/CFO, will present the quarterly financial report.

Financial results are provided in the following three reports for the 4th Quarter FY2019:

1) Statement of Net Position
2) Budget to Actual Report
3) Statement of Revenues, Expense and Other changes – FY2019 compared to FY2018

Overview of Comparison: FY2019 compared to FY2018

- **7.4%, $2,743,000**, decrease in Total Operating Revenues
- **3.9%, $2,251,000**, decrease in Total Operating Expenses
- **16.2%, $1,783,000,** decrease in Cash and Cash Equivalents
- **6.3%, $378,000**, decrease in Net Position

STATEMENT OF REVENUES, EXPENSES AND OTHER CHANGES

Operating Revenues: $34.554 million – $2.743 million – Decrease

Tuition and Fee Revenue – $27.7 million – .6% decrease; $167,254

Enrollment decline is ***nearly offset*** by the increase in charges to students.

Scholarship Allowance – $12.1 million – 4.3% increase; $501,244

The 4th Quarter FY2019 allowance is higher than the 4th Quarter FY2018, a continuation of increased institutional and financial aid resources required to recruit new students.

Federal Grants and Contracts – $1.052 million – 25% decrease; $350,000

This decrease is due to the absence of the nursing grant (approximately $340,000)

Auxiliary Enterprises Revenue – $12.7 million – 10.9% decrease; $1,559 million

The 4th Quarter FY2019 Auxiliary Enterprises Revenue is lower than the 4th Quarter FY2018, as a result of the outsourcing of dining services to Chartwells. The University receives a commission on dining sales to students for meal plans and catering provided for campus events.

Operating Expenses: $56.142 million – $2.251 million Decrease

Operating Expenses decreased 3.9%; $2.25 million, for the 4th Quarter FY2019 as compared to the same period in FY2018.

Instruction – $17.943 million – 1.5% increase; $259,000
Academic Support – $3.177 million – 5.2% increase; $158,000
Student Services – $3.498 million – 3.2% increase; $109,000
Scholarships and Fellowships – $2.487 million – 11.2% increase; $251,000
Operations and Maintenance – $4.930 – 7.0% decrease; ($373,000)[1]
Institutional Support – $6.299 million – 9.4% decrease; ($656,000)[2]
Research – $384,000 – 52.4% increase; $132,000[3]
Public Service – $223,000 – 13.8% increase; $27,000
Auxiliary Services – $10.824 million – 13.3% decrease; ($1.664 million)

[1]**Contractual Services decreased by $270,000** due to a decreased use of outside custodial services; Routine **Maintenance to Buildings decreased by $159,000** due to the continued and necessary practice of deferred maintenance.

[2]**Institutional Support decrease** is related to the Perkins loan write-off as loans are assigned to the Federal government.

[3]**Research – increase of $132,000** is related to increased grant activity.

Non-Operating Revenues and Expenses: $15.990 million; $870,000 – Increase

Total Non-Operating Revenues and Expenses for 4th Quarter FY2019 as compared to 4th Quarter FY2018 – 5.8% increase; $870,000.

Interest on capital asset related debt – **4%** decrease; **$57,000** year-over-year.
Decrease is consistent with principal reduction of capital debt.

Non-operating federal revenue – **3.4%** increase; **$176,000,** due to an increase in PELL.

Gifts revenue – **.5%** increase; **$9,000**, year-over-year.
This revenue results from contributions from the Foundation. The majority is in the form of student scholarships.

Loss on disposal of equipment at **$193,000**;
The Ram Stadium turf replacement resulted in a write-off (noncash expense) in the amount of $193,000, for the unamortized depreciation of the previous turf purchase.

State Appropriations – 8.7% increase; **$10.172 million**
The State granted an increase of $311,000, which partially funded the pay increase mandated for full-time employees ($2,160 per employee). This amount funded approximately 30% of the total pay increase, including associated benefits.

The State also granted a one-time appropriation of $500,000, received at the end of FY2019, which will be expended in FY2020 for specific capital purchases, as approved by the Executive Leadership Team.

Other Revenues, Expenses, Gains or Losses:

Other Post-Employment Benefits (OPEB) – GASB75 reporting began in FY2018.
Due to auditor's review of the proposed entry, the entry will be finalized during the audit. There is no amount shown on these unaudited financial reports. However, the final audit report in November will include this adjustment.

STATEMENT OF NET POSITION

Assets

Total Assets: **$123.9 million** – 5.51% approximate decrease; $7.2 million

Decreases in balances include Cash, Grants Receivable, Inventories, Loan Receivables, Capital Assets, net of accumulated depreciation and Other Noncurrent Assets.

Cash decreased $1.8 million – 16.22% from FY2018 to FY2019

Grants and Contracts Receivable decreased $827,000 – 48.1% related to the decrease in the Shepherd University Foundation Supporting Organization (SUFSO) ground rent payment. In FY2018, the amount was $600,000 higher due to a partial year of debt service payments based on the loan closing date.

Loans Receivable decreased $65,000 – 65%, due to assignment of Perkins loan accounts to the Federal Loan Department.

Capital assets decreased $4.6 million – 3.94%, related to depreciation and minimal additions to fixed assets due to continued efforts to conserve cash.

Cash and Cash Equivalents: $9.2 million – 16.22% decrease; $1.783 million

Days Cash on Hand at June 30, 2019: 67

Decline in Revenues generated by Tuition and Fees and State and Local Grants and Contracts contributes to the decline in cash and cash equivalents.

As previously noted, it is essential to recognize that the "Days Cash on Hand" ratio varies on a quarterly basis throughout the year and is impacted by the start and completion of each academic term.

At the end of the 4th Quarter FY2019, the University had sufficient cash and other resources on hand to meet operating and capital requirements.

Accounts Receivable, Net: $533,000 – 36.67% increase; $143,000

Finance continues the early collection process for student accounts. Past due balances on student accounts frequently occur from a change in the student enrollment, which creates a reduction of financial aid.

The Business Office continues to manage the Student Payment Plan in-house. This enables students to make partial payments and prevents them from being dropped from classes, which contributes to retention efforts.

Grants and Contract Receivables: $893,000 – 48.1% decrease; $827,000

The Potomac Place receivable of $382,050 for FY2019 is included in this account. This amount was $965,782 in FY2018. In addition, there was a receivable for Potomac Place BRIM claim in process for approximately $98,000, also in FY2018.

Inventories: $1,000 – 93.8% decrease; $15,000

The inventory for dining services was eliminated as Chartwells assumed those operations at the beginning of FY2019.

Capital Assets Net: $112.7 million – 3.94% decrease; $4.6 million

Capital Assets are presented net of Accumulated Depreciation.

The 4th Quarter FY2019 addition of $1.6 million to Accumulated Depreciation brings the annual total to $6.377 million.

The University continues to delay major capital expenditures in the continuing effort to preserve cash flow. However, some capital projects were essential to ensure safe and efficient operations. These projects combined with the depreciation expense create the net decrease in Capital Assets.

Liabilities

Total Liabilities: **$53.6 million** – 3.1% decrease; $1.7 million

The increase in **Current Liabilities** results from increases in Accrued Liabilities, Deferred Revenue and Compensated Absences and is offset by decreases in Accounts Payable.

Noncurrent Liabilities decreased resulting from assignment of Perkins loans to the Federal Government and the principal payments on Bonds Payable. This is offset by increases in Compensated Absences and Leases Payable.

Summary:

Total Net Position: $69.4 million – 7.4% decrease; $5.5 million

The decline in the 4th Quarter FY2019 Net Position indicates the lack of sufficient State appropriation, decline in enrollment, and the decline in significant capital investments, as compared to Total Net Position of **$74.9 million** in the 4th Quarter FY2018.

Table 1

Shepherd University
Statement of Net Position
As of June 30, 2019 and 2018
(Dollars in Thousands)

	6/30/19	6/30/18	% Change
ASSETS			
Current assets:			
Cash and cash equivalents	9,211	10,994	-16.22%
Accounts receivable net	533	390	36.67%
Grants and contracts receivable, net	893	1,720	-48.08%
Due from the Commission	15	16	-6.25%
Inventories	1	16	-93.75%
Loans Receivable	35	100	-65.03%
Other assets	-	-	n/a
Total Current assets	**10,688**	**13,236**	**-19.25%**
Noncurrent assets:			
Restricted cash and cash equivalents	3	5	-40.00%
Investments	-	-	n/a
Loans receivable, net	283	317	-10.73%
Capital assets net	112,739	117,362	-3.94%
Other Noncurrent assets	200	218	-8.3%
Total Noncurrent assets	**113,225**	**117,902**	**-3.97%**
TOTAL ASSETS	**$123,913**	**$131,138**	**-5.51%**
Total Deferred Outflows of Resources (GASB 68)	**$847**	**$847**	**0.00%**
TOTAL ASSETS & DEFERRED OUTFLOWS	**$124,760**	**$131,985**	**-5.47%**
LIABILITIES			
Current liabilities:			
Accounts payable	908	1,263	-28.11%
Accrued liabilities	2,769	2,757	0.44%
Due to the Commission	-	-	n/a
Due to other State agencies	-	-	n/a
Deferred revenue	1,560	1,196	30.43%
Long-term liabilities - current portion	2,852	2,715	5.05%
Total Current liabilities	**8,089**	**7,931**	**1.99%**
Noncurrent liabilities:			
Advances from federal sponsors	42	403	-89.58%
Deposits	157	179	-12.29%
Other post employment benefits	9,007	9,007	0.00%
Compensated absences	590	415	42.17%
Net pension liability	267	267	0.00%
Debt obligation due Commission	225	375	n/a
Leases Payable	416	175	137.71%
Bonds Payable	34,789	36,526	-4.76%
Total Noncurrent liabilities	**45,493**	**47,347**	**-3.92%**
TOTAL LIABILITIES	**53,582**	**55,278**	**-3.07%**
Total Deferred Inflows of Resources (GASB 68)	**1,798**	**1,798**	**0.00%**
TOTAL LIABILITIES & DEFERRED INFLOWS OF RESOURCES	**55,380**	**57,076**	**-2.97%**
NET POSITION	**69,380**	**74,909**	**-7.38%**
TOTAL LIABILITIES AND NET POSITION	**$124,760**	**$131,985**	**-5.47%**

Table 2

Shepherd University
Budget to Actual Report
For theYear Ending June 30, 2019
(Dollars in Thousands)

	Annual Budget	YTD Actual	$ Variance	% Budget
OPERATING REVENUES				
Tuition and Fees	$14,960	$15,594	($634)	104.2%
Federal Grants and Contracts	1,716	1,052	664	61.3%
State and Local Grants and Contracts	3,868	4,574	(706)	118.3%
Private Grants and Contracts	38	-	38	0.0%
Sales and Services of Educational Activities	24	29	(5)	120.8%
Auxiliary Enterprises	11,005	12,701	(1,696)	115.4%
Other Operating Revenues	330	604	(274)	183.0%
TOTAL OPERATING REVENUES	**31,941**	**34,554**	**(2,613)**	**108.2%**
OPERATING EXPENSES				
Instruction	17,336	17,943	(607)	103.5%
Academic Support	3,082	3,177	(95)	103.1%
Student Services	3,394	3,498	(104)	103.1%
Scholarships & Fellowships	2,270	2,487	(217)	109.6%
Operations and Maintenance	4,118	4,930	(812)	119.7%
Institutional Support	5,962	6,299	(337)	105.7%
Research	200	384	(184)	192.0%
Public Service	138	223	(85)	161.6%
Auxiliary Expenses	7,820	10,824	(3,004)	138.4%
Depreciation Expense	6,500	6,377	123	98.1%
Transfers and Other (Additions) Subtractions	220	-	220	0.0%
TOTAL OPERATING EXPENSES	**51,040**	**56,142**	**(5,102)**	**110.0%**
NONOPERATING REVENUES AND EXPENSES				
State Appropriations	9,672	10,172	(500)	105.2%
Nonoperating federal revenue	5,000	5,286	(286)	105.7%
Investment Income	180	448	(268)	248.9%
Interest on capital asset related debt	(1,374)	(1,371)	(3)	99.8%
Loss on disposal of equipment	-	(193)	193	n/a
Gifts	1,600	1,667	(67)	104.2%
Payments on behalf of Shepherd University	-	-	-	n/a
Fees assessed by the Commission for interest and reserves	(38)	(19)	(19)	50.2%
TOTAL NONOPERATING REVENUES AND EXPENSES	**15,040**	**15,990**	**(950)**	**106.3%**
OTHER REVENUES, EXPENSES, GAINS OR LOSSES				
Other Post Employment Benefits (OPEB) expense	-	-	-	n/a
Increase (Decrease) in Net Position	**(4,059)**	**(5,598)**	**1,539**	**137.9%**

Table 3

Shepherd University

Statement of Revenues, Expenses and Other Changes

For the Years Ending June 30, 2019 and 2018

(Dollars in Thousands)

	Budget FY19 Annual	YTD Actual 6/30/19	YTD Actual 6/30/18	% Change	$ Change
OPERATING REVENUES					
Tuition and Fees	14,960	$15,594	$16,261	-4.1%	($667)
Federal Grants and Contracts	1,716	1,052	1,402	-25.0%	(350)
State and Local Grants and Contracts	3,868	4,574	4,454	2.7%	120
Private Grants and Contracts	38	-	-	n/a	-
Sales and Services of Educational Activities	24	29	35	-17.1%	(6)
Auxiliary Enterprises	11,005	12,701	14,260	-10.9%	(1,559)
Other Operating Revenues	330	604	885	-31.8%	(281)
TOTAL OPERATING REVENUES	**31,941**	**34,554**	**37,297**	-7.4%	**(2,743)**
OPERATING EXPENSES					
Instruction	17,336	17,943	17,684	1.5%	259
Academic Support	3,082	3,177	3,019	5.2%	158
Student Services	3,394	3,498	3,389	3.2%	109
Scholarships & Fellowships	2,270	2,487	2,236	11.2%	251
Operations and Maintenance	4,118	4,930	5,303	-7.0%	(373)
Institutional Support	5,962	6,299	6,955	-9.4%	(656)
Research	200	384	252	52.4%	132
Public Service	138	223	196	13.8%	27
Auxiliary Expenses	7,820	10,824	12,488	-13.3%	(1,664)
Depreciation Expense	6,500	6,377	6,629	-3.8%	(252)
Transfers and Other (Additions) Subtractions	220	-	242	-100.0%	(242)
TOTAL OPERATING EXPENSES	**51,040**	**56,142**	**58,393**	-3.9%	**(2,251)**
NONOPERATING REVENUES AND EXPENSES					
State Appropriations	9,672	10,172	9,361	8.7%	811
Nonoperating federal revenue	5,000	5,286	5,110	3.4%	176
Investment Income	180	448	199	125.1%	249
Interest on capital asset related debt	(1,374)	(1,371)	(1,428)	-4.0%	57
Loss on disposal of equipment	0	(193)	(390)	-50.5%	197
Gifts	1,600	1,667	1,658	0.5%	9
Payments on behalf of Shepherd University	0	-	628	-100.0%	(628)
Fees assessed by the Commission for interest and reserves	(38)	(19)	(18)	5.6%	(1)
TOTAL NONOPERATING REVENUES AND EXPENSES	**15,040**	**15,990**	**15,120**	**5.8%**	**870**
OTHER REVENUES, EXPENSES, GAINS OR LOSSES					
Other Post Employment Benefits (OPEB) expense	0	-	-	n/a	-
Increase (Decrease) in Net Position	**(4,059)**	**(5,598)**	**(5,976)**	**-6.3%**	**$378**

APPENDIX E: Shepherd University Budget Projections through FY 22

SUMMARY - FY19 thru FY22	FY19 - Audited	FY20 Projection	FY21 Projection	% of change FY21 to FY20	FY22 Projection	% of change FY22 to FY21
Tuition and Fees	$15,603	$14,519	$14,809	2.00%	$15,402	4.00%
Total Operating Revenue	$34,784	$34,594	$35,763	3.38%	$36,631	2.43%
Total Operating Expenses	$56,089	$56,383	$55,350	-1.83%	$55,755	0.73%
Net Loss	-$4,554	-$3,549	-$1,345	-62.10%	-$882	-34.44%

NOTE: This comparison indicates an overall improvement in the operating results as we move from FY20 into FY21 and FY22

Tuition and Fees are expected to increase by modest amounts during this time resulting from new extensive recruiting efforts to maximize our market potential. However, the challenge of decreasing enrollment nationwide presents the need to remain informed of impending challenges and opportunities.
This is also represented in the **Total Operating Revenues** category and is further impacted by the increase in State Appropriation beginning in FY20.

Total Operating Expenses are projected to decline in FY21 with a slight increase in FY22. The Board of Governors Task Force is leading the effort to explore all areas of operating expenses with the intent of seeking lower cost vendors or other potential methods of doing business to reduce costs, where possible. Continued budget monitoring efforts will further provide guidance throughout the year regarding operational spending.

The decrease in the **Net Loss** from FY20 through FY22 results from deliberate operational focus. The improvement in FY21 is the combination of an additional $1.2 million in **Total Operating Revenues** and the reduction of **Total Operating Expenses** by $1 million. The increase in revenue is anticipated by the development of new revenue streams coupled with advanced and focused recruiting efforts. The reduction in Total Operating Expenses will be realized through all areas of operational expenses including staffing reductions, as appropriate.

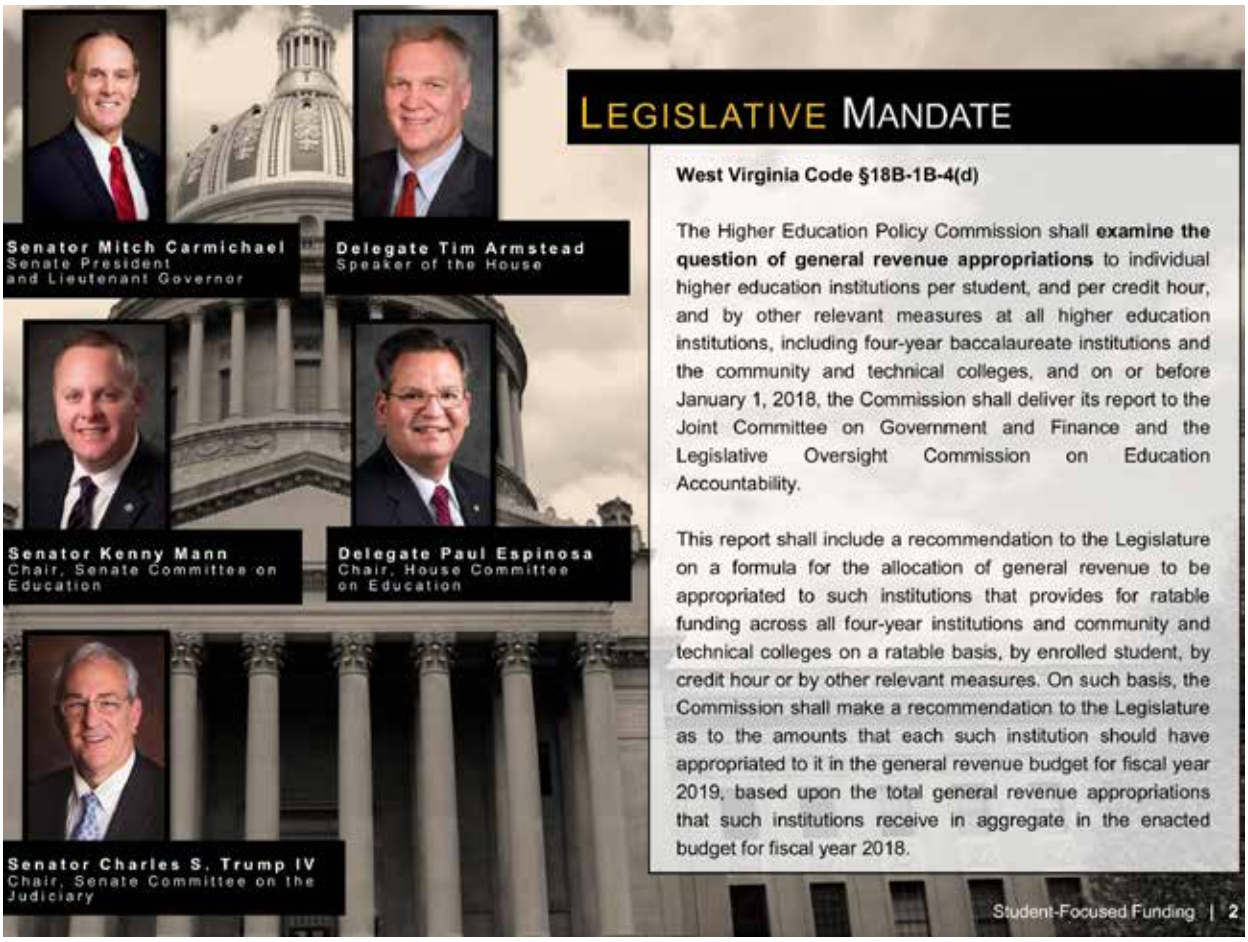
Shepherd University
FY2020 - FY 2022 Operating Scenario and Cash Flow Projection
(Dollars in Thousands)

REVENUES, EXPENSES AND CHANGES IN NET POSITION:	AUDITED FY19	Revised 08.08.19 Flat + $250K FY20	PROJECTION FY21	PROJECTION FY22
Tuition and Fees	15,603	$ 14,519	14,809	15,402
Federal Grants and Contracts	1,581	1,827	1,800	1,800
State and Local Grants and Contracts	3,997	4,037	4,600	4,600
Private Grants and Contracts	48	151	150	150
Sales and Services of Educational Activities	29	31	30	30
Auxiliary Enterprises	12,702	13,637	13,773	14,049
Other Operating Revenues	824	392	600	600
TOTAL OPERATING REVENUES	**34,784.00**	**34,594**	**35,763**	**36,631**
Core Operating Expenses				
Primary Mission Costs				
Instruction	17,943	18,637	18,000	18,200
Academic Support	3,177	3,258	3,200	3,300
Student Services	3,498	3,715	3,800	3,900
Scholarships & Fellowships	2,489	2,825	2,800	2,800
Subtotal Primary Mission Costs	**27,107.00**	**28,435**	**27,800**	**28,200**
Other Core Operating Expenses				
Operations and Maintenance	4,930	4,582	4,500	4,500
Institutional Support	6,246	5,887	5,600	5,600
Research	384	253	250	253
Public Service	222	214	200	202
Subtotal Other Core Operating Expenses	**11,782**	**10,936**	**10,550**	**10,555**
Total Core Operating Expenses	**38,889**	**39,371**	**38,350**	**38,755**
Auxiliary Expenses	10,823	10,312	10,300	10,300
Depreciation Expense	6,377	6,700	6,700	6,700
TOTAL OPERATING EXPENSES	**56,089**	**56,383**	**55,350**	**55,755**
State Appropriations	10,172	12,684	12,684	12,684
Nonoperating federal revenue	5,286	5,200	5,200	5,200
Investment Income	227	219	175	175
Interest on capital asset related debt	(1,371)	(1,340)	(1,300)	(1,300)
Gifts	2,580	1,500	1,500	1,500
Fees assessed by the Commission for interest and reserves	(19)	(17)	(17)	(17)
Loss on Disposal of equipment	(193)	-	-	-
TOTAL NONOPERATING REVENUES AND EXPENSES	**16,682.00**	**18,246**	**18,242**	**18,242**
Decrease in Net Position	**(4,554.00)**	**(3,549)**	**(1,345)**	**(882)**

APPENDIX F: Formation of WV Governor's Blue Ribbon Commission on Higher Ed

Student-Focused Funding for West Virginia Higher Education, March 23, 2018

Full report available: http://www.wvhepc.edu/wp-content/uploads/2018/03/FundingModelPresentation.pdf




Senator Mitch Carmichael
Senate President and Lieutenant Governor
Delegate Tim Armstead
Speaker of the House
Senator Kenny Mann
Chair, Senate Committee on Education
Delegate Paul Espinosa
Chair, House Committee on Education
Senator Charles S. Trump IV
Chair, Senate Committee on the Judiciary
LEGISLATIVE MANDATE
West Virginia Code §18B-1B-4(d)
"examine the question of general revenue appropriations to individual higher education institutions"
"report shall include a recommendation to the Legislature on a formula for the allocation of general revenue"
"the Commission shall make a recommendation to the Legislature as to the amounts that each such institution should have appropriated to it in the general revenue budget for Fiscal Year 2019."
"on or before January 1, 2018… deliver its report to the Joint Committee on Government and Finance and the Legislative Oversight Commission on Education Accountability."
Student-Focused Funding | 3


A NEW FORMULA MUST…
focus state taxpayer dollars on educating West Virginia resident students;
provide the Higher Education Policy Commission and West Virginia Council for Community and Technical College Education with a fair and equitable means of calculating recommended institutional funding levels;
account for variations in the missions of the state's public institutions and the unique needs of their diverse student populations;
be based upon reliable metrics drawn from existing data resources;
be straightforward and easy to understand;
be transparent and auditable;
promote innovation and student success; and
reward institutional successes with additional funding.
Student-Focused Funding | 4

TOTAL FUNDING - PROPOSED MODEL

	FY18 Base Budget*	ACCESS Pool Funds	SUCCESS Pool Funds	IMPACT Pool Funds	New Base Budget (Proposed Model)	Difference from FY 2018 Base Budget	Percent Difference
Four-Year Institutions	**$229,434,536**	**$160,604,175**	**$11,471,727**	**$57,358,634**	**$229,434,536**	**$0**	**0.0%**
Bluefield State College	$5,379,199	$4,019,888	$141,282	$1,900,951	$6,062,121	$682,922	12.7%
Concord University	$8,278,077	$7,200,364	$503,453	$2,770,143	$10,473,961	$2,195,884	26.5%
Fairmont State University	$14,579,417	$11,999,363	$860,261	$4,874,651	$17,734,276	$3,154,859	21.6%
Glenville State College	$5,622,099	$3,204,899	$262,117	$1,178,487	$4,645,504	($976,595)	-17.4%
Marshall University*	$54,940,572	$40,022,641	$2,741,893	$13,625,361	$56,389,894	$1,449,322	2.6%
Potomac State College of WVU	$3,650,589	$2,460,980	$163,907	$1,387,634	$4,012,521	$361,932	9.9%
Shepherd University	$9,360,954	$8,736,694	$607,563	$3,420,873	$12,765,130	$3,404,176	36.4%
West Liberty University	$7,592,683	$6,114,799	$513,140	$2,608,509	$9,236,448	$1,643,765	21.6%
West Virginia State University*	$9,514,960	$7,107,749	$300,244	$2,686,613	$10,094,607	$579,647	6.1%
West Virginia University*	$103,079,979	$66,589,299	$5,161,166	$22,118,666	$93,869,132	($9,210,847)	-8.9%
WVU Institute of Technology	$7,436,007	$3,147,499	$216,699	$786,745	$4,150,943	($3,285,064)	-44.2%

*See exclusions slide for additional details.

Student-Focused Funding | 39

The State Journal, June 25, 2018

Hundreds of comments submitted for college funding formula proposal

by Jake Jarvis Staff Writer 8 hrs ago 0

Hill

CHARLESTON — The state agency which oversees four-year colleges in West Virginia received more than 1,300 comments on a proposal to shake up higher education funding.

The proposal, drafted by the Higher Education Policy Commission, would tie a college's funding levels to a number of different measures. About 96 percent of all the comments are "generally supportive" of the formula, according to an agenda for the commission's next meeting.

"We're just still working through the comments," said HEPC Chancellor Paul Hill, in an interview earlier this month. "It's just taking a little longer than originally anticipated."

Hill said he doesn't know if his staff will ultimately recommend any changes based on the comments, but that if there were changes, they would be voted on at a later meeting.

The proposed formula gives colleges more money for students from high-risk populations and bases a majority of the funding decisions on how many in-state students the college educates. It would also give schools more money for STEM courses that are often more expensive to facilitate compared to traditional classes in the humanities.

Of the 11 schools that could fall within purview of the formula, three would lose a significant chunk of their funding: Glenville State, West Virginia University and West Virginia University Institute of Technology. The other eight schools would see a bump in funding. Not surprisingly, representatives from each of those schools commented against the formula while other were generally in favor of it.

WVU President E. Gordon Gee submitted a detailed comment, criticizing several parts of the formula and the commission's process for writing it. He begins by criticizing a so-called "hold harmless" provision, which would ensure that schools don't lose money in the first three years of the formula. After that, any revenue losses would be phased in.

Of the 11 schools that could fall within purview of the formula, three would lose a significant chunk of their funding: Glenville State, West Virginia University and West Virginia University Institute of Technology. The other eight schools would see a bump in funding. Not surprisingly, representatives from each of those schools commented against the formula while other were generally in favor of it.

WVU President E. Gordon Gee submitted a detailed comment, criticizing several parts of the formula and the commission's process for writing it. He begins by criticizing a so-called "hold harmless" provision, which would ensure that schools don't lose money in the first three years of the formula. After that, any revenue losses would be phased in.

Gee wrote that the provision would require the state to immediately invest $13.5 million more into higher education for schools that fare well under the formula, and that there probably wouldn't be enough support to do that.

WVU's total budget is more than $1 billion, and it would lose $9.2 million under the proposed formula, or roughly 9 percent of its state appropriations, and Gee said that although it looks like it wouldn't be damaging to the university's budget, about 40 percent of the school's revenue can only be spent on certain things like athletics.

"As a result, a reduction in funding of the magnitude proposed by commission staff, particularly given the recent declines in appropriations, would be devastating," Gee wrote. "And the message that this model sends to the university is that the state does not value the service and outcomes it provides."

Gee also complained that WVU's medical school program was included in the formula but the West Virginia School of Osteopathic Medicine was exempted. Hill said the osteopathic school was not considered part of the program because of how unique it is, but that his is looking at an option to opt medical and professional programs out of the formula.

This proposed funding formula has been in the works for months. Earlier this year, Hill gave lawmakers an overview of the formula's general tenets. It was officially unveiled in detail for the first time at the commission's March 23 meeting.

Members of the public were able to submit comments on the proposal from that day until April 23. The comments were released publicly earlier this month, with only the contact information of those submitting comments redacted.

Many of the comments on the formula appear to have been submitted by employees of different colleges. It's impossible to know the full extend of college employee comments because of the redactions. As many as 500 comments in support of the formula were submitted using an online, automated form from Shepherd University's website.

"Overall, the idea of a student focused funding formula has merit," wrote Tracy Pellett, president of Glenville State College. "However, any funding model that creates dramatic reductions for any single college needs careful consideration and extensive analysis. GSC will be unequivocally financially damaged with a decrease in state appropriation by over 17 percent of its current state appropriation."

Pellett said a potential nearly $1 million loss to its budget would be "catastrophic" and would make the school unaffordable to the students who need it most.

Charleston Gazette, June 28, 2018

WV Gov. Justice announces plans to create 4-year college commission

By Ryan Quinn Staff writer 14 hrs ago (...)

The office of Gov. Jim Justice, in a news release distributed after 5 p.m. Thursday, announced Justice is creating a commission to study ways West Virginia "can create a more efficient and meaningful" higher education system.

The release said Justice is expected to sign an executive order by Monday to officially create the "Blue Ribbon Commission on Four-Year Higher Education," but the release also references that the governor has already asked the commission to do something. The release didn't state who will be, or already is, on the commission.

Governor's Office officials, whom the Gazette-Mail contacted earlier Thursday afternoon with a request to talk to them about the office's rumored higher education reorganization plans, didn't provide any information beyond Assistant Legal Counsel Jordan Damron emailing the newspaper a copy of the news release at 5:24 p.m.

The Gazette-Mail is awaiting responses to follow-up questions.

"The commission will be tasked with finding bold and unique solutions to a problem that West Virginia has faced for several decades," the release said, without specifying what the problem is.

The release said Justice has already asked the commission "to give regular updates and reports and has mandated the work be completed by the December 2018 interim meetings of the West Virginia Legislature."

The next regular legislative session starts the following month.

"Our West Virginia colleges and universities are so critical to our communities, and the continued erosion of their stability deeply concerns me," Justice said in the release. "My hope is that every possible solution will be considered and evaluated, all colleges and universities will be consulted, and that the Commission will find the right solution for our higher education system in West Virginia."

Justice went on to say that "Just as my philosophy has been in opposition to K-12 school consolidation, our colleges and universities need an advocate to stand up for their continued stability and to recognize their critical importance to West Virginia communities. These colleges and universities are a lifeline for the students they serve and represent the future of West Virginia. We must find a more efficient means of ensuring that these colleges and universities stay in the communities they serve today."

The governor doesn't have direct power to decide which schools close, stay open or change their students' grade levels. The state Board of Education can reject closures and consolidations that county boards of education propose.

Five of the current members of the nine-person state school board were appointed by Justice. Though some of the names have changed, Justice appointees have been the majority on the board for each of its votes on consolidation.

Counting just school facilities to be completely closed, the state school board has approved closing 16 schools since Justice took office, and only rejected plans to close a school once.

Wheeling Intelligencer, June 30, 2018

Blue Ribbon Commission Surprises W.Va. House Committee Leader

TOP HEADLINES

JUN 30, 2018

STEVEN ALLEN ADAMS FOR THE INTELLIGENCER

SHARE TWEET

CHARLESTON — An announcement from the governor's office of the creation of a blue ribbon commission to look into the state's higher education system took the chairman of the House Education Committee by surprise.

"I started to hear that the governor might appoint some kind of commission to inspect higher education, but I had not spoken with the governor's office," said Del. Paul Espinosa, R-Berkeley.

Gov. Jim Justice announced the creation of the Blue Ribbon Commission on Four-Year Higher Education in a press release Thursday after rumors started spreading earlier that day.

The Blue Ribbon Commission will look at ways to create efficiencies in the state's 11 baccalaureate institutions, 10 community and technical colleges and one professional school.

"Our West Virginia colleges and universities are so critical to our communities, and the continued erosion of their stability deeply concerns me," Justice said. *"My hope is that every possible solution will be considered and evaluated, all colleges and universities will be consulted and that the commission will find the right solution for our higher education system in West Virginia."*

Espinosa talked with the governor's office Friday, although he said it didn't give him more details than what was in the press release.

"They apologized for not reaching out prior to the announcement, but events had overtaken their announcement," he said. *"Once speculation spilled over in the media, they felt obliged to send the release."*

In a statement, Chancellor Paul Hill of the Higher Education Policy Commission said having the discussion on improving the college and university system in West Virginia is a positive step.

"Creating the blue ribbon panel to discuss higher education issues among all institutions is a good idea," Hill said. "I commend the governor for recognizing the importance of higher education institutions in our communities statewide.

"Sustainability of our public colleges and universities is something the Policy Commission has already been working on and we would be able to provide this additional information to the panel," he said.

The Policy Commission already is working on new funding formula for higher education as required by HB 2815, which was signed into law by Justice last year. The law required the Policy Commission to present the funding formula to the Legislature in January, although Espinosa said the final proposal has been delayed until September.

"The one thing I don't want to see this in any way circumvent or delay the work of the HEPC in regard to the funding model proposal they were directed to prepare and present to the Legislature," he said. *"We want to get it in the hands of the Legislature to ask questions and examine how we move forward in having a more equitable process."*

Examining the Policy Commission and the college/university system as a whole is nothing new for the Legislature. A 2009 report from the Legislative Auditor's Office said the state has too many four-year institutions.

"The population density within a 25-mile radius of each baccalaureate institution does not support the number of institutions, and both baccalaureate and community colleges are competing for the same students," according to the report.

Another report from 2016 said the Policy Commission and the Council for Community and Technical College Education were not providing the proper oversight of higher education institutions.

An executive order naming the Blue Ribbon Commission's members will be signed Monday.

Chancellor search likely to halt because of higher education size-up

Steve Rotsch/Governor's Office

Gov. Jim Justice listens as West Virginia University President Gordon Gee and other higher education officials speak.

By **Brad McElhinny** in **News** | July 02, 2018 at 4:44PM

CHARLESTON, W.Va. — The search for a new higher education chancellor is likely to end next week because of Gov. Jim Justice's call for a broad study of West Virginia's higher education system.

Justice was flanked at a Monday news conference by West Virginia University President Gordon Gee, Marshall President Jerome Gilbert and Concord University President Kendra Boggess as he kicked off his Blue Ribbon Commission on Higher Education. The presidents are the co-chairs of the commission.

Justice said the commission's work, which he would like to be concluded by December, is meant to shore up West Virginia's four-year system, particularly smaller colleges that are economic engines for their communities even as they might struggle financially.

"What we want to do is take advantage of the expertise of our larger universities and let them drive us, let them help us to find a way to preserve our smaller institutions and give them the opportunity of thriving as well," Justice said.

The governor and the presidents were asked several times if the commission's ultimate result might be WVU and Marshall taking responsibility for regions of the state. At one point, that possibility was described as a "WVU system" and a "Marshall system."

"I don't think so at all. It's an effort to make things better," Justice said.

Alternatively, the group was asked whether WVU or Marshall might assume more oversight of individual colleges in need of more support.

"It could very well be," Justice said.

Gee commented on that possibility, "We have no idea."

They were also asked if this might be the beginning of the end for the Higher Education Policy Commission, which has governed the state's four-year institutions.

"I do not believe that we are being supplanted," said Michael Farrell, chairman of the commission.

In most cases when asked such questions, the group said the blue ribbon commission's work has just started and there's no determining the outcome yet.

Justice also said he hopes not to close any of West Virginia's small colleges.

"I am not a proponent of closing, combining," he said. "I am a proponent of making things better."

Gee added, "The governor has been very clear that this is not a closure commission. This is an enhancement commission."

They were also asked if this might be the beginning of the end for the Higher Education Policy Commission, which has governed the state's four-year institutions.

"I do not believe that we are being supplanted," said Michael Farrell, chairman of the commission.

In most cases when asked such questions, the group said the blue ribbon commission's work has just started and there's no determining the outcome yet.

Justice also said he hopes not to close any of West Virginia's small colleges.

"I am not a proponent of closing, combining," he said. "I am a proponent of making things better."

Gee added, "The governor has been very clear that this is not a closure commission. This is an enhancement commission."

This all comes as Chancellor Paul Hill moves toward **retiring** from his current position. The position had been **advertised**, with an August goal of naming a replacement.

Farrell, a Huntington lawyer who heads the HEPC, said the group will get together at 9 a.m. Monday with an agenda that will likely end the hunt for a new chancellor. "I suspect we're going to suspend that search."

That was in contrast to a statement by Justice, who was asked if the chancellor search would continue. "We do need a chancellor. We do need a board," Justice had said.

Gee was asked about rumors that WVU Tech **President** Carolyn Long — a former chairwoman of the WVU board of governors — might fill in as chancellor.

Gee said he would be excited to see that.

"I think she would be a great choice," Gee said, adding that he has suggested her.

Gee promised that the commission's meetings would be open.

The Governor's Office announced the roster of the Blue Ribbon Commission on Monday afternoon:

- Mike Farrell, chairman of the West Virginia Higher Education Policy Commission
- Drew Payne, secretary of the HEPC
- Mirta Martin, president of Fairmont State University
- Anthony Jenkins, president of West Virginia State University
- Dale Lee, president of the West Virginia Education Association
- Marty Becker, chairman of the Board for QBE Insurance
- Eric Lewis, certified public accountant
- Amelia Courts, president and chief executive officer of the West Virginia Education Alliance
- Gary White, consultant and interim chief executive officer for the Mountain Health Network
- Ellen Cappellanti, lawyer
- Three members of the state Senate (two Republicans and one Democrat), as designated by the Senate President. All three designees shall serve as ex-officio, non-voting members.
- Three members of the House of Delegates (two Republicans and one Democrat), as designated by the Speaker of the House. All three designees shall serve as ex-officio, non-voting members.

Lawmakers consider effects of Justice's higher education commission

By **Brad McElhinny** in **News** | July 05, 2018 at 2:47AM

CHARLESTON, W.Va. — West Virginia lawmakers are keeping a close eye on how West Virginia and Marshall universities might interact with the state's smaller colleges under proposals by a study group launched by Gov. Jim Justice.

West Virginia's smaller colleges are already wondering how much, if any, autonomy they might give up.

"The smaller institutions are worried they're going to be divided up among WVU and Marshall," said Senate Minority Leader Roman Prezioso, D-Marion.

Roman Prezioso

His district includes West Virginia University and also the smaller Fairmont State. "The folks there are concerned," Prezioso said.

That kind of concern has become more pronounced since the revelation of a draft report that recommends merging the governing boards of Bluefield State College and Concord University, and later for Glenville State College and West Virginia State University.

The report prepared for the Higher Education Policy Commission was first reported in **The State Journal** and in the **Charleston Gazette-Mail.** It had not yet been presented to the HEPC.

The report questioned whether the role of the current Higher Education Policy Commission is adequate.

"West Virginia now has no state-level entity with authority and power to maintain a balance among missions and to counter actions of either West Virginia University or Marshall University that have the potential to seriously undermine the regional institutions' sustainability," the consultant's report said.

"The changes have left the regional university sector vulnerable to the power of larger institutions with the brand name and the resources to compete for students and state resources."

Delegate Brent Boggs, D-Braxton, said he is concerned about the report and its findings. He often advocates on behalf of Glenville, which is in his district.

Brent Boggs

"I have major concerns with an out-of-state report attempting to influence our higher ed decisions, especially merging governing boards of four or possibly more 4-year institutions," Boggs said.

"I certainly hope this is not a starting point for discussions, as the decisions made could very easily be irreparable harm to one or more regions of our state."

Governor Justice announced his Blue Ribbon Commission on Higher Education this week. He wants it to complete its work by December, just before the next regular legislative session.

Justice named West Virginia University President Gordon Gee, Marshall President Jerome Gilbert and Concord University President Kendra Boggess as the co-chairs of the commission.

The **executive order** that names the commission indicates it will explore issues such as adequacy of current funding levels for higher education, the current governance structure and the role of the current Higher Education Policy Commission.

Justice said he wants a strategy to shore up West Virginia's four-year system, particularly smaller colleges that are economic engines for their communities even as they might struggle financially.

"What we want to do is take advantage of the expertise of our larger universities and let them drive us, let them help us to find a way to preserve our smaller institutions and give them the opportunity of thriving as well," Justice said.

File
Gov. Jim Justice

That also raised a lot of questions about what role WVU and Marshall might play in longer-term oversight of other four-year institutions.

And if there were a broader reorganization with greater roles for WVU and Marshall, there are details about issues such as bond covenants to work out.

"I am encouraged by what the governor said about wanting to protect the smaller colleges and universities. But the devil is in the details," Boggs said.

"What role WVU or Marshall may play in that is something that could be a positive or negative, depending on how it works out."

Glenville, in his district, is one of West Virginia's smaller institutions. Its location in central West Virginia gives it some distance from the other schools. And, Boggs notes, Glenville has a relatively higher percentage of first-generation college students.

"As we move forward, we have to look at making certain we don't do something that will limit or eliminate opportunities for higher education for people in various parts of the state," Boggs said.

He felt some assurance that Boggess, the president of Concord, would be serving as a co-chairwoman.

As state government has faced budget challenges over the past few years, the higher education system has been affected. Higher education went through a **$16 million cut** statewide in 2017 with WVU and Marshall taking the biggest cuts.

Boggs would like to see a reinvestment.

"At least this year, we didn't cut higher education further. We should be putting money into it," Boggs said. "I think there is a recognition this is something we need to make a big priority, not only now but going forward."

Delegate Joe Statler, R-Monongalia, would like a fairly broad mission for the Blue Ribbon Commission.

Joe Statler

Statler, who is the vice chairman of the House Education Committee, would like its members to examine how West Virginia's higher education system interacts with its public schools system, particularly in terms of college readiness.

"I think it's a great thing," Statler said. "I just hope we look at some other issues that cross between the two."

Statler is open to a greater oversight roles for WVU and Marshall in the higher education system.

"Some of the administrative roles can be doubled up to help each other. I think it's worth looking at," he said.

"If you're doing your job right, you need to look at all these issues and see what works and what will not work for us. I think it's long overdue and if done correctly it can be very very rewarding."

Delegate Larry Rowe, D-Kanawha, said the commission should be looking at higher education funding. And Rowe said it should examine how West Virginia's colleges work together to avoid redundant programs and to take advantage of unique program opportunities.

Larry Rowe

Rowe is a former chairman of West Virginia State Universities governing board.

"We, like other states, should be seeing higher education as a matter of economic development," he said. "I just think investment in higher education is one of the best investments we could make."

Rowe suggested a reorganization of West Virginia's college system may be necessary, but the commission should do so with results in mind. He pointed toward reorganizations in years past.

"We cannot help but tinker with the higher education system, whether it's the Board of Regents or the Higher Education Policy Commission," he said. "I think we should study all possibilities, but I don't think we should just reorganize for the sake of reorganizing."

He said the state's smaller institutions should maintain as much autonomy as possible while also being collaborative.

"I think the institutions should continue to be independent but perhaps they should be encouraged to work with the other ins to prevent duplication," Rowe said.

"As far as having either of the two universities assume oversight, Ihtink they've probably got all they can handle and should not go into that role."

Charleston Daily Mail, July 6, 2018

Daily Mail editorial: Higher education needs a steady, calm guide through transition

Jul 6, 2018 (1)

There is a lot of uncertainty in the administration of West Virginia's public higher education institutions right now.

Gov. Jim Justice this week announced a new "Blue Ribbon Commission on Four-Year Higher Education" to examine college funding and sustainability, among other things, and higher education's policy-making organization, the Higher Education Policy Commission.

Meanwhile, the HEPC is reviewing comments on a proposed four-year college funding formula, which it proposed after a 2017 legislative mandate. That mandate called for the HEPC to study and develop a formula to:

focus state taxpayer dollars on educating West Virginia resident students;

provide the HEPC with a fair and equitable means of calculating recommended institutional funding levels;

account for variations in the missions of the state's public institutions and the unique needs of their diverse student populations;

be based upon reliable metrics drawn from existing data resources;

be straightforward and easy to understand;

be transparent and auditable;

promote innovation and student success; and

reward institutional successes with additional funding.

Building the funding formula was no small task. And whether it will be adopted or not creates its own share of uncertainty for institutions. The governor throwing in a hastily organized Blue Ribbon Commission adds a touch of near chaos to the mix.

Add to all this uncertainty the pending retirement of HEPC Chancellor Paul Hill.

Hill, who was named chancellor in 2012, announced in March that he would retire after his successor is selected. The HEPC had begun a search, but that is likely to be put on hold during a special meeting Tuesday considering the Blue Ribbon panel's review.

Hill, always a team player, appears ready to stay on to lead the HEPC through the transition, whatever its ultimate outcome may be.

Meanwhile, West Virginia University President Gordon Gee is pushing for Carolyn Long, president of the WVU Institute of Technology — who oversaw that institution's move from Montgomery to Beckley — to be named interim chancellor.

Perish the thought. As capable of an administrator as Carolyn Long is, Hill is the leader with the skill, independence, sense of fairness and vision to lead the state's colleges and universities through what is likely to be a chaotic remainder of the year.

When the Policy Commission members meet on Tuesday, they are urged to ask Paul Hill to remain as chancellor in order to provide the steady, even-handed guidance that he is so well respected for.

Charleston Gazette, July 7, 2018

College presidents suggest keeping Hill as HEPC chancellor

By Ryan Quinn Staff writer Jul 7, 2018 (1)

The head of the Council of Presidents, which includes all the state's 4-year public college presidents, asked state Higher Education Policy Commission board members to keep current HEPC Chancellor Paul Hill and specifically not appoint West Virginia Institute of Technology President Carolyn Long to the position.

The HEPC board, which oversees 4-year schools, is meeting on the chancellor issue 9 a.m. Tuesday in the 9th Floor conference room of Boulevard Tower, at 1018 Kanawha Blvd. East in Charleston.

"As President of the Council of Presidents and Co-Chair of the newly appointed Blue Ribbon Commission on Higher Education, I would like to let you know that the regional presidents endorse your proposed cancellation or postponement of the search for a new chancellor," Kendra Boggess wrote July 3, according to an email obtained by the Gazette-Mail.

It was addressed to HEPC board Chairman Michael Farrell but also sent to the other HEPC board members, whom West Virginia University President Gordon Gee, another co-chair of the blue ribbon commission, has asked to appoint Long. Republican Gov. Jim Justice has created the blue ribbon commission to examine, among other things, "the role and value" of the HEPC, whose staff will assist with the panel's work.

Boggess, who is also Concord University's president, broadly confirmed the statement Friday, but declined to send the newspaper a copy of the email herself.

"We would also respectfully request that the [HEPC board] not appoint Carolyn Long from WVU Tech to the position," the email said. "Carolyn is a respected member of the education community, but we feel strongly that there is a substantial conflict of interest which may create unnecessary challenges in the system, especially during this critical time."

When asked what kind of conflict of interest, Boggess said, "I think if any of us were put in that position we would bring a commitment to our school. It would be hard not to, we could try, but it would be difficult."

"We further understand Chancellor Hill has not stepped down nor resigned," the email continued, "and that he is willing to continue to serve in these extraordinary circumstances. We fully endorse the continued leadership of Chancellor Hill at the HEPC, as he is independent and well qualified to continue."

Boggess said that all public 4-year college presidents backed the statement except for the presidents of WVU, Marshall University and their branch campuses, who weren't invited to the telephone meeting that resulted in the statement, and Glenville State College President Tracy Pellett. Boggess said she was unable to invite Pellett to participate in the late-night conference call because she didn't have his cellphone number, and she felt a time crunch to get the statement out.

"I hope Paul continues as the chancellor for as long as he wants to do so and as long as it's viable for him," Pellett said of Boggess' statement.

Regarding the portion of the statement about Long, Pellett said, "I don't think it helps anybody when you attack a respected educator like Carolyn that has a long history of success and leadership in the state ... I didn't think it was appropriate how the letter came out, I think it was misrepresentative [of his own view] and I didn't think it was necessary in terms of pinpointing anybody."

Glenville is the only college, aside from WVU and WVU Tech, that would lose money under HEPC staff's proposed new 4-year college funding formula, which hasn't been finalized.

Pellett said Glenville is also "in pretty serious discussions" with WVU to possibly have WVU professors teach nursing on Glenville's campus, in order to provide WVU nursing bachelor's degrees to students there, but he said neither that nor the funding formula were sources of his refusal to oppose Long's appointment.

He said he thinks opposition to Long is reflective of some of the "resistance" that a recent report from the Colorado-based nonprofit National Center for Higher Education Management Systems suggested Concord University and Bluefield State College have to collaborating.

Shepherd University Executive Director of Communications Valerie Owens wrote in an email that Shepherd President Mary Hendrix supported Boggess' statement. Owens also wrote that Hendrix "asked that I share the attachment and the information copied below."

Copied into the email were brief biographies of Hill and Long, and the email attachment was a chart with columns comparing Hill's education and experience to Long's. Hill's experience took up 33 lines, and Long's took up nine, despite Hill's column being slightly wider.

Long's extensive preK-12 experience, including as Braxton County's schools superintendent, was left off the chart, while some of Hill's non-higher education experience was included.

Long's bio on Tech's website lists her first higher education work experience as becoming a WVU Board of Governors member in 2007, chairwoman of that board in 2008 and then transferring from chairwoman to Tech president in 2011.

A WVU Tech spokeswoman said late Friday afternoon that Long was off campus and unavailable to comment, and Hill didn't return a request for an interview.

West Liberty University President Stephen Greiner wrote in an email that "I see no reason to appoint an interim chancellor, especially since Paul Hill had agreed to remain in the position until the conclusion of the search process."

Other presidents that Boggess said backed the statement didn't return requests for comment Friday.

According to the bios of HEPC board members on the HEPC website, six of the nine current members have connections to WVU, as either alumni or former WVU Board of Governors members. The only other schools to which there are listed ties are Marshall, Shepherd and Fairmont State University.

Justice and his chief of staff, Mike Hall, have said the blue ribbon commission will examine college funding and sustainability.

Farrell, the HEPC board chairman, cited Justice's creation of the panel in announcing Monday that the HEPC board would meet this week on possibly suspending the current search for a new permanent chancellor.

Farrell expressed concern about finding a quality chancellor if "that person doesn't know what the system looks like." He said that structure might not be known until after working with the blue ribbon commission and, potentially, after action from the Legislature.

Boggess said she didn't know Gee was asking HEPC board members to appoint Long as interim chancellor until Gee was asked about it at that same Monday news conference.

WVU holds majority on blue ribbon higher ed commission

BY STEVEN ALLEN ADAMS
Special to The Journal

CHARLESTON – Out of the 14 members appointed so far to a new commission looking at higher education, about a third are connected to the West Virginia University Board of Governors.

About another fifth were board members of a former media empire ran by the governor's senior adviser.

Gov. Jim Justice announced the appointment of the Blue Ribbon Commission on Four-Year Higher Education Monday during a press conference. The commission will be co-chaired by Gordon Gee, president of WVU at Morgantown; Jerome Gilbert, president of Marshall University at Huntington; and Kendra Boggess, president of Concord University at Athens.

Justice appointed the first 14 members of the blue ribbon commission when he signed an executive order later the same day. After the House of Delegates and Senate appoint their three members each, the board will have 20 members.

Counting Gee, WVU has four representatives on the committee, a current member of the WVU Board of Governors and two past members:

– Drew Payne, secretary for the Higher Education Policy Commission, served as a member of the WVU Board of Governors for nine years from 2006 to 2015. He served three years as vice chairman and two years as chairman of the board.

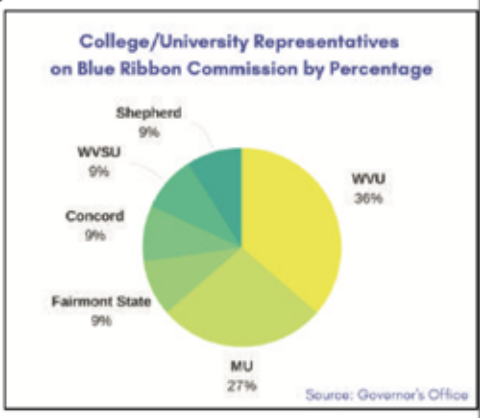
– Ellen Cappellanti, an attorney with Jackson Kelly, was appointed to the WVU Board of Governors in 2006.

– Marty Becker was appointed to the WVU Board of Governors in 2016 to fill the expired term of Cappellanti. He has also served on the board of the WVU Foundation.

Butch Antolini, communications director for the governor's office, said each commission member was picked for their qualifications.

"The governor has the final say on members of the commission, and he consulted with members of his staff," Antolini said.

See WVU, Page A2



WVU

From Page A1

"All of these people on the blue ribbon commission are highly qualified with knowledge of higher education. The governor looks forward to reviewing the information they'll gather and the recommendations they'll provide."

Antolini said having four commission members with connections to WVU's governance won't have an effect on the outcomes the commission determines.

"There are 14 members right now," Antolini said. "You can break down all kinds of things and where people went to school. We don't think WVU will have any undue influences on the selections. It's not a majority by any stretch of the imagination."

WVU has been opposed to a proposed performance-based funding model for higher education being developed by the Higher Education Policy Commission at the behest of the Legislature. During Monday's press conference, officials said all angles of higher education would be looked at, including redoing the funding model. Lawmakers have raised concerns the blue ribbon commission could undo the work done by the Policy Commission.

Some of the Blue Ribbon Commission members also have another connection. Three members were board members of West Virginia Media Holdings, a media company owned by Bray Cary, senior adviser to Justice.

Started in 2001, West Virginia Media Holdings owned four TV stations across West Virginia and a weekly newspaper focused on West Virginia business news. Cary sold the TV stations to Nexstar Broadcasting Group in 2015 and he sold The State Journal to NCWV Media, owners of the Clarksburg Exponent-Telegram, in 2016.

Becker was Cary's business partner and chairman of the board for Media Holdings. Blue Ribbon Commission members Payne and Gary White, interim CEO for the Mountain Health network, also served on the Media Holdings board. Antolini said Cary recommended names for the commission, but didn't have any more influence than any other staff member.

"Bray is a member of the staff, and he certainly had input in the forming of the panel as other members of staff," Antolini said.

Counting Gilbert, Marshall University has two members connected to its board of governors on the commission: Policy Commission Chairman Mike Farrell, who is a former 11-year member of the board of governors and a former interim president; and White, who serves on the board and is a former interim president.

Representatives of some of the smaller universities and colleges include Dr. Mirta Martin, president of Fairmont State University; and Anthony Jenkins, president of West Virginia State University. Eric Lewis, a certified public accountant, is chairman of the board of governors for Shepherd University in the Eastern Panhandle.

Rounding out the membership of the Blue Ribbon Commission are: West Virginia Superintendent of Schools Steven Paine; West Virginia Education President Dale Lee; and Amelia Courts, president and CEO of the West Virginia Education Alliance.

Among the colleges watching the Blue Ribbon Commission with great interest is Glenville State College.

Tracy Pellet, president of Glenville State, has spent his term turning around the small rural school. He has held the line on tuition increases and expects to see greater enrollment and a budget in the green next year.

Pellet sees Glenville as a model for the state's smaller colleges and universities to follow and doesn't see a takeover of his school anytime soon.

"At Glenville, we're going to chart our own destiny," Pellet said. "I'm not concerned about a WVU takeover. That's just one model. They have plenty on their plate, and I can't imagine they'd be excited about taking on new campuses and new issues."

Pellet said he is optimistic about the blue ribbon panel, despite having no voice on it. He hopes the commission takes a good look at what Glenville is doing.

"We're doing things that are access-oriented," Pellet said. "If that becomes a good model for WVU and Marshall, I'm happy to be the model."

Metro News, July 10, 2018

Higher ed shakeup moves Chancellor Hill to consultant, brings in WVU Tech's Long

By **Brad McElhinny** in **News** | July 10, 2018 at 12:38PM

CHARLESTON, W.Va. — The Higher Education Policy Commission today suspended its search for a new chancellor, agreed to place current Chancellor Paul Hill in a paid position as an adviser and voted to bring on WVU Tech President Carolyn Long as an interim chancellor.

Carolyn Long

All those moving parts were a result of Gov. Jim Justice's announcement last week that he wants a Blue Ribbon Commission on Higher Education to look at the broad picture of West Virginia's four-year colleges.

The votes also kick off what may be months of power moves as West Virginia's smaller regional colleges aim to remain solvent while also keeping their autonomy. Many of those smaller colleges had viewed the Higher Education Policy Commission as a counterbalance to the more powerful West Virginia and Marshall universities.

File
Paul Hill

Hill had planned to retire this year, and the search for his replacement had started this summer with a goal of choosing a new, long-term chancellor by late August.

But the fact that the Blue Ribbon Commission may change the structure of higher education governance in West Virginia caused that search to be halted.

"At a point in time when we don't know what the structure is going to look like, we don't know what the governor's recommendation and his commission is going to be or the legislative response to it, I think it's unfair to have the search and spend that money, only to have to do it again," said Michael Farrell, HEPC chairman.

That opened the door for Long to assume the interim chancellor role, starting Monday. She'll make the same as Hill, whose **base salary** was $227,119. And Hill will also continue to make that amount during his six months as a consultant.

That puzzled House Finance Chairman Paul Espinosa, who reacted after the meeting.


Paul Espinosa

"First, if the HEPC is going to suspend their search for a replacement for Chancellor Hill and has asked Chancellor Hill to remain at his current salary, I'm not sure I understand the rationale for also employing an interim chancellor," said Espinosa, R-Jefferson.

"While I have high regard for WVU Tech President Carolyn Long, I share the concern expressed by our regional presidents that her appointment will raise questions about the impartiality of the HEPC as it finalizes its work on a higher education funding model as directed by the Legislature."

Only one commissioner voted against the selection of Long, but her selection came under some scrutiny because of her longtime association with West Virginia University, her current role as president of WVU Tech and the fact that no search or process for her selection was conducted in the open.

All commissioners except for Chairman Mike Farrell participated today by speaker phone. After the votes were made, longtime Higher Education Policy Commission counsel Bruce Walker of HEPC announced his immediate retirement and left. "Bruce out," he said.


Jenny Allen

HEPC board member Jenny Allen, who works at an environmental nonprofit in Shepherdstown, was the sole vote against Long.

She also asked several questions about what state code says about the qualifications to be chancellor.

Walker, who was still on the job at that moment, cited **state code** saying qualified chancellor candidates should be free of institutional or other regional biases and should not have another administrative position within the higher education system.

That applies to those seeking a long-term position as chancellor but is unclear whether it would apply to an interim chancellor.

Allen urged the commissioners to table the motion to pursue a "proper, more thorough, more transparent process." She added, "This is the single most important action any board can take."

But no one seconded her motion so it failed.

When the vote on Long was made, Allen said "I oppose it. This is Jenny Allen."

Espinosa, reacting after the meeting, said Allen had raised good questions.

"Again, with all due respect for President Long, I'm not clear how she meets these requirements," Espinosa said.

Chairman Farrell, a former interim president at Marshall University, told reporters after the meeting that it only made sense to suspend the search for a long-term chairman if the Blue Ribbon Commission may change the landscape.

He said commissioners reached agreement on Long during discussions prior to today's special meeting and then during an executive session. He said Commissioner Drew Payne, a Charleston businessman, recommended Long.

"We had a discussion before the meeting. Various members of the commission talked to each other," he said. "In executive session, we had a full discussion from a personnel point of view."

Farrell said he would still like to have Hill's expertise on hand. "He's been a great leader, and I wanted to do the best I could to build in some more transition time as we bring an interim chancellor in," Farrell said.

Concord President Kendra Boggess, who is a co-chairwoman of the Blue Ribbon Commission, had earlier expressed reservations about Long's new role through yet another of her roles. Boggess is leader of the Council of Presidents, representing the state's four-year public college presidents.

That group **sent an email** to the HEPC saying regional presidents wanted to keep Hill and raising objections to Long's appointment.

"I think we were worried about conflict of interest, the ability to step away from your institution and represent all the institutions," Boggess said today. "I think that's concerning."

After today's meeting Boggess praised Hill and said nothing about Long.

"I'm very glad that Paul Hill is staying on. That's all I'll say about that," Boggess said.

Parkersburg News and Sentinel, July 11, 2018

Interim chancellor named, counsel resigns

NEWS

JUL 10, 2018

STEVE ALLEN ADAMS
sadams@newsandsentinel.com

SHARE TWEET

Photo by Steve Adams Staff members await the reconvening in open session of the Higher Education Policy Commission members from an executive session.

CHARLESTON — Just as the new Blue Ribbon Commission on Higher Education comes together, the state's Higher Education Policy Commission suspended its search for a new chancellor and appointed the president of West Virginia University Institute of Technology as interim chancellor, but not without drama.

The HEPC held a special meeting Tuesday at its headquarters in Charleston. The commissioners, most of whom called in to the meeting, unanimously voted to suspend the search for a new chancellor for the higher education body.

WVU Tech Campus President Carolyn Long was appointed interim chancellor of the HEPC with one vote against and with Bruce Walker, general counsel for the HEPC, immediately resigning in protest and walking out.

Long has served as president of WVU Tech since 2011 and oversaw its move from Montgomery to a new campus in Beckley. Before that, Long served on the WVU Board of Governors — including a stint nas chairwoman — from 2008 to 2011. But that is the extent of her higher education experience, having previously served 40 years as a school teacher, principal and county superintendent.

Before entering into executive session to discuss the appointment of Long, Commissioner Jenny Allen asked Walker to advise fellow commissioners on the legal qualifications for selecting a chancellor.

"When a vacancy occurs, (the commission) shall conduct a nationwide search for qualified candidates," Walker said. *"A qualified candidate is one that meets the following criteria: possesses an excellent academic and administrative background, demonstrates strong communications skills, has significant experience and an established national reputation as a professional in the field of higher education, is free of institutional and regional biases, and holds or retains no other administrative position within the system of higher education while employed as chancellor."*

It's the last two criteria — being free of institutional bias and retaining no other administrative position in the state's higher education system — that concern Allen about Long's appointment. Allen was the lone no vote against Long and a motion by Allen tabling the appointment failed due to lack of a second.

"I move that we table this resolution to allow the commission to have a proper, more thorough, and more transparent process that will permit us to at least interview the candidates and consider perhaps other candidates," Allen said. *"This is the single most important action any board undertakes. I, for one, would like to have a chance to resolve some of my concerns that this appointment might be in violation of certain aspects of the code."*

Immediately after the vote, Walker resigned on the spot as HEPC general counsel and walked out of the board room. Candace Crouse, deputy counsel, will take over as general counsel.

"Bruce out," he said as he walked out the door.

Mike Farrell, chairman of the HEPC and a member of the Blue Ribbon Commission, said Long was recommended by commissioner Drew Payne — another member of the Blue Ribbon Commission and former chairman of the WVU Board of Governors. Farrell said the HEPC made an informed decision on Long.

"We had a discussion before the meeting and various members of the commission talked during executive session, and we had a full discussion from a personnel point-of-view," Farrell said.

Despite the advice of counsel, Farrell believes the provisions of state code don't apply to interim chancellors.

"That section of code applies to the permanent chancellor," Ferrell said. *"It does not address directly, or by implication, an interim chancellor. I can say based on the comments that I have heard that those who voted in favor of President Long believe she had the qualifications."*

The HEPC also voted to enter into a six-month sabbatical with current HEPC Chancellor Paul Hill, who will perform services for the commission as requested and report to Farrell. Hill announced his intentions to retire in March, having served as chancellor since 2012.

The HEPC created a 13-member search committee in April, and Hill agreed to continue to serve until his successor was in place. Commissioners agreed to suspend the chancellor search after Gov. Jim Justice created the Blue Ribbon Commission on Four-Year Higher Education July 2.

"Our expectation was to have a new chancellor in place by August 25," Farrell said. *"With the appointment of the Blue Ribbon Commission, we're not going to be able to do that."*

"I think it's unfair to conduct that search, spend that money, only to have to do it again because we're not going to find the right candidate," Ferrell said. *"This is a prudent approach to an unexpected situation."*

While on sabbatical, Hill will continue to be paid at his current salary. His state compensation is $278,819.93. Long, as interim chancellor, also will be paid the same as Hill.

The Blue Ribbon Commission is charged with creating a more efficient higher education system and stopping the erosion in student enrollment and funding. The commission is co-chaired by the presidents of West Virginia University, Marshall University, and Concord University.

Concord is specifically singled out in a new report presented to the HEPC Tuesday. Drafted by the National Center for Higher Education Management Systems and paid for in part by the Claude Worthington Benedum Foundation, the catalyst for the report was a letter to the HEPC from Justice in May 2017 asking how to best strengthen and sustain higher education in West Virginia.

The report focuses on the regional four-year colleges and universities using publicly available information, data from the HEPC, and in-person interviews with staff from the regional schools and lawmakers.

"The declining demographics and reduced state support have stressed all the public institutions in the state, but they've been especially acute at the regional institutions more than the others," said Brian Prescott, vice president of NCHEMS, who walked commissioners through the report via conference call. *"Also competition for students and declining population has been more intense with WVU and Marshall able to reach deeper into all the counties in the state."*

Prescott said the report puts regional colleges and universities into two categories: low-to-medium risk, and medium-to-high risk. Schools at low-to-medium risk includes West Virginia State University, West Liberty University, Fairmont State University, and Shepherd University. Schools at medium-to-high risk include Concord, Bluefield State College and Glenville State University.

"In general, governance and institutional leadership are key to navigating this environment that is currently pretty unfavorable to those institutions and key parts of the state," Prescott said. *"Recent statutory changes have weakened the policy commission's authority to formulate a response, especially in a state where so many governing boards are each independently able to chart their own course."*

The report says there needs to remain access to higher education regionally across the state, but there needs to be more collaboration between regional schools, the community and technical colleges, and larger schools, such as WVU and Marshall. The report recommends that many of the roles regional college university governing boards have should be consolidated under the HEPC. It also sees reduction of operating costs as crucial to success of regional schools.

Also on Tuesday, West Virginia University Provost Joyce McConnell appointed Gerald Lang interim campus president at WVU Tech because of Long's selection Tuesday. Lang most recently was campus provost at WVU Tech.

APPENDIX G: WV Legislature Allocation to Shepherd University FY 20

WEST VIRGINIA LEGISLATURE

2019 REGULAR SESSION

ENROLLED

Committee Substitute

for

House Bill 2020

BY MR. SPEAKER (MR. HANSHAW) AND DELEGATE MILEY

(BY REQUEST OF THE EXECUTIVE)

[Passed March 8, 2019; in effect from passage.]

103 - Bluefield State College

(WV Code Chapter 18B)

Fund 0354 FY 2020 Org 0482

1	Bluefield State College.....	40800	$	6,383,221

104 - Concord University

(WV Code Chapter 18B)

Fund 0357 FY 2020 Org 0483

1	Concord University.....	41000	$	10,476,415

105 - Fairmont State University

(WV Code Chapter 18B)

Fund 0360 FY 2020 Org 0484

1	Fairmont State University.....	41400	$	18,600,341

106 - Glenville State College

(WV Code Chapter 18B)

Fund 0363 FY 2020 Org 0485

1	Glenville State College.....	42800	$	6,446,942

107 - Shepherd University

(WV Code Chapter 18B)

Fund 0366 FY 2020 Org 0486

1	Shepherd University.....	43200	$	12,683,829

108 - West Liberty University

(WV Code Chapter 18B)

Fund 0370 FY 2020 Org 0488

1	West Liberty University	43900	$	9,102,662

109 - West Virginia State University

(WV Code Chapter 18B)

378 - Department of Agriculture

(WV Code Chapter 19)

Fund 0131 FY 2020 Org 1400

WV Food Banks – Surplus ..... ##### $ 300,000

379 - State Board of Education

State Department of Education

(WV Code Chapter 18 & 18A)

Fund 0313 FY 2020 Org 0402

Directed Transfer – Surplus ..... ##### $ 3,500,000

The above appropriation for Directed Transfer - Surplus (fund 0313, appropriation #####) shall be transferred to the Safe Schools Fund (fund XXXX, org 0402) established by W.Va. Code §18-5-48.

380 - Shepherd University

(WV Code Chapter 18B)

Fund 0366 FY 2020 Org 0486

Shepherd University – Surplus..... ##### $ 500,000

381 - Blue Ridge Community and Technical College

(WV Code Chapter 18B)

Fund 0601 FY 2020 Org 0477

Blue Ridge Community and Technical College – Surplus..... ##### $ 500,000

382 - Eastern West Virginia Community and Technical College

(WV Code Chapter 18B)

Fund 0587 FY 2020 Org 0492

Eastern West Virginia Community and

Technical College – Surplus ..... ##### $ 500,000

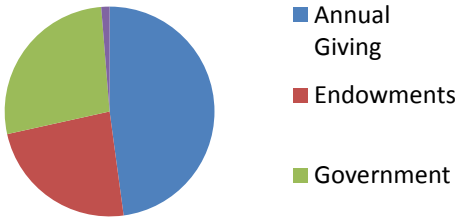
APPENDIX H: Shepherd University Foundation Cumulative Fundraising Summary FY 19

Shepherd University Fundraising Summary 2018 - 2019
June 2019

Purpose of Gift	Cash & Commitments
Annual Giving	$2,563,370
Endowments	$1,267,966
Government	$1,455,735
Capital	$68,561
Total	$5,355,632

Deferred Commitments = $1,173,567

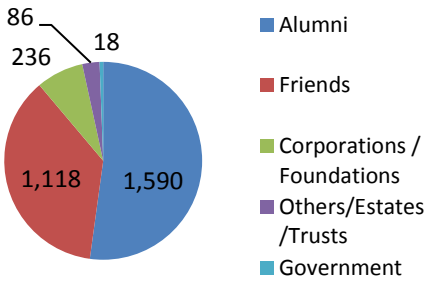
Giving by Purpose



Donor Category	# Donors	Cash & Commitments
Alumni	1,590	$973,377
Friends	1,118	$1,833,908
Corporations / Foundations	236	$250,958
Others/Estates/Trusts	86	$841,654
Government	18	$1,455,735
Total	3,048	$5,355,632

Includes Faculty & Staff giving $43,839 (96 donors)

Giving by Constituency



Gift & Pledge Progress By Fiscal Year

7/1/18 - 6/30/19	2017 - 2018	2016 - 2017
$5,355,632	$4,311,412	$4,550,472

APPENDIX I: Shepherd University Fall 2019 Assembly President's Report

Transforming our Future:
Implementing Change in a Challenging Environment

President's Report
Fall Assembly
September 9, 2019

Presentation Outline

- Benchmarking Progress: Surviving the Perfect Storm
- Fall 2019 Student Enrollment Estimate – Bill Sommers (VP for Enrollment Management and Student Success)
- FY2020 Budget – Pam Stevens (VP for Finance/CFO)
- Select New Initiatives

Primary Goal: Attain financial stability to provide a world-class liberal arts education for the next generation of professional leaders and model citizens, and to serve as an educational resource for the community.

- Priority 1: To invest strategically in recruitment efforts in the tri-state area - - to impact enrollment.
- Priority 2: To create a positive campus environment and rewarding experience for our students, employees, and community.
- Priority 3: To increase extramural funding by at least 10% each year over the next five years to achieve a minimum of $3 million annually.
  - OSP (FY2018 $2,321,075.99; FY2019 $1,306,460.90; FY2020 to date $1,734,872.94)
  - SERC (FY2018 $19,493; FY2019 $335,057)
- Priority 4: To advance public/private partnerships through Shepherd's Entrepreneurship and Research Corporation (SERC) - - to support ongoing and new initiatives.
- Priority 5: To create a user-friendly strategic plan to guide our efforts in transforming the future.

Surviving the Perfect Storm

- Shepherd University has experienced a 33% decline in enrollment since FY2012.
- Shepherd's cash reserves have been trending downward over the past five years due to increased operating expenses and lower than expected revenue.
  - Between FY2018 and FY2021, we must commit $4.27 million to address critical maintenance issues in key residential halls, the Student Center, Snyder Hall and Byrd Science, Knutti Hall, and the Frank Center.
- Free community college in WV and MD are adversely affecting first-time in college enrollment.
- To preserve cash, we must ration the distribution of scarce resources.

The Board of Governors (BOG) Formed a Finance and Operations Task Force

- The purpose is to perform a detailed analysis of the following areas:
  - Revenue Generating Activities
  - Academic Programs
  - Non-academic Programs
  - Expenses - Personnel
  - Expenses - Facilities
- A preliminary report will be made at the September 19th BOG meeting.
- Examples of BOG Assessment:
  - Climate-control is currently outsourced to a vendor, who charged Shepherd $270,500 in FY2019; an RFP for better pricing is under development.
  - Employee travel: FY2018 ($317,604.); FY2019 ($275,962.); FY2020 to date ($27,498.)

Enrollment Management

- Shepherd Enrollment Fall 2019
- Marketing and Recruiting Strategies

University Enrollment Build

Fall 2019

Headcount by Student Type	Fall 2019 Build	Fall 2019 Targets	% of Target
Continuing Undergraduate	1,895	1,793	105.7%
First-time in College	509	575	88.5%
Re-admit	30	40	75.0%
Transfer	270	300	90.0%
Continuing Graduate	90	100	90.0%
New Graduate Student	76	50	152.0%
Total Degree Seeking Enrollment	**2,870**	**2,858**	**100.4%**
Non-degree Undergraduate	*487*	400	121.8%
Non-degree Graduate	*40*	100	40.0%
Total University Enrollment	**3,397**	**3,358**	**101.2%**

Marketing and Recruiting

Spring 2020 and Fall 2020

New Students

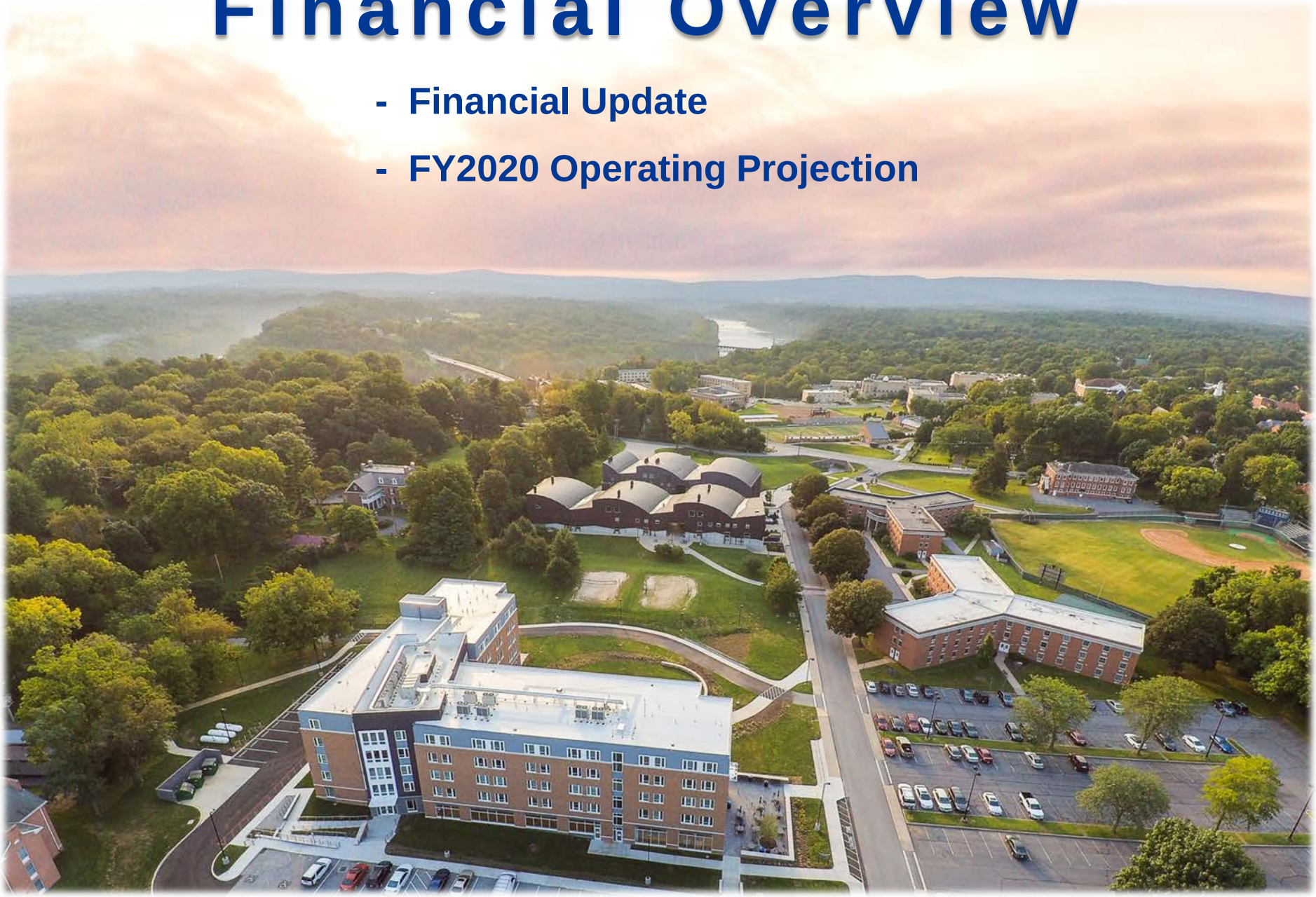
- National Research Center for College and University Admissions (NRCCUA) Prospective Student Search
- The Common App
- Digital Marketing Partner-Gauge Digital Marketing
- Print Marketing/Communication Campaigns
- Roadshow Recruiting/Alumni Events
- Metro Scholarship and Resident Merit Scholarship Increases (Fall 2020)

Current Students

- Student Success, Persistence, and Graduation Initiatives
- Student Stop-out Initiative (Pilot)
- Advising and Registration Marketing
- Summer Semester Marketing

Financial Overview

- Financial Update
- FY2020 Operating Projection



FY2020 Financial Update
(7/1/19 – 6/30/20)

Target: Eliminate Deficit by FY2022 Year-end

Opportunities/Challenges/Solutions – Revenue:

- Modest Increase in Tuition and Fees; Room and Board Revenues
  - Increase in tuition and fees (Undergraduate: 3.1% In-state; 1% Out-of-state)
    (Graduate: 3.5% In-state; 4.4% Out-of-state)
  - Rate of enrollment has shown a new level of decline; Retention rate remains stable
- Increase in State Appropriation $3,012,287 (50% to replace decrease in total revenues; 50% to reduce deficit)
  - Additional $500,000 as a one-time appropriation (Infrastructure Improvements)
- Potomac Place – Ground lease rent to be paid by Shepherd University Foundation Supporting Organization (approximately $382,050)

Preparing for FY2020 Financial Update (cont.)

Target: Eliminate Deficit by FY2022 Year-end

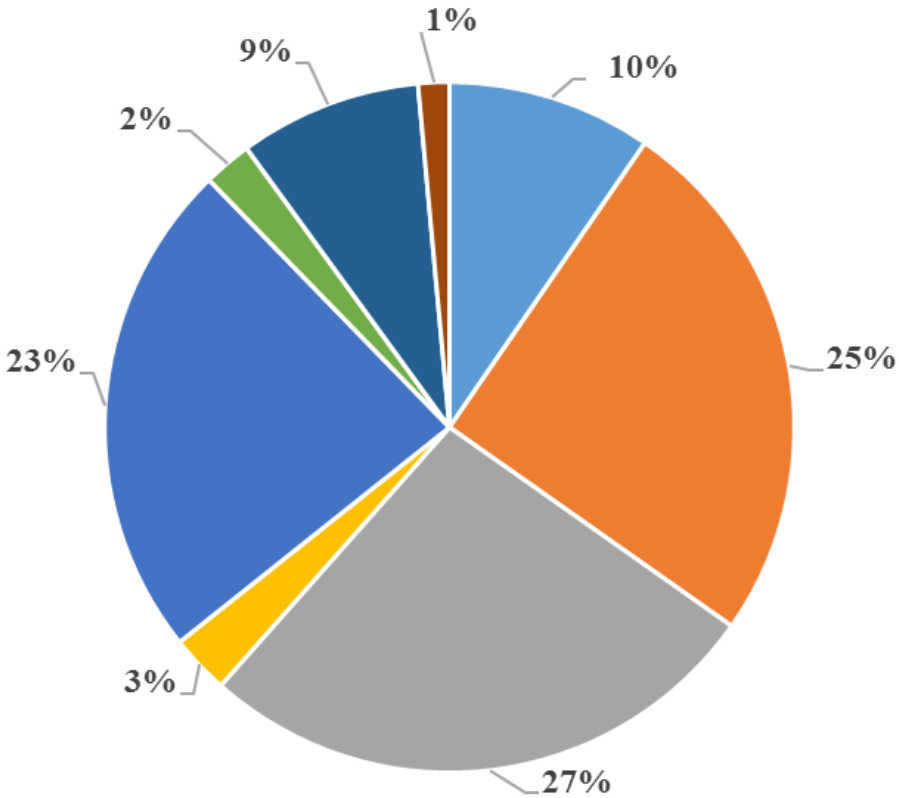
Opportunities/Challenges/Solutions (cont.)

Emphasis on Cost Containment Through Budget Reductions:

Additional Initiatives: $1,200,000 loan funding obtained

- Interest free energy saving loan from WV Higher Education Policy Commission
- Secured lease financing to replace turf at Ram Stadium (to preserve cash) - - Targeted fundraising and philanthropy are supporting monthly payments
- Capital improvements – reduce cost of repairs and maintenance
- Continue early intervention – student account collection *(ongoing)*
- Retired unused phone lines ($60k/per year) *(completed)*
- Continue travel oversight and reduced mileage reimbursement
- Continue budget monitoring to ensure responsible spending
- Reduced Service Master services by $267,680 in FY2019 and $90,000 in FY2020

FY2020 Revenue Budget



- PELL - 10%
- Auxiliary - 25%
- Tuition & Fees - 27%
- Gifts - 3%
- Appropriation - 23%
- Federal Grants/Contracts - 2%
- State & Local Grants - 9%
- Other Revenue - 1 %

FY2020 Operating Projection
(in thousands)

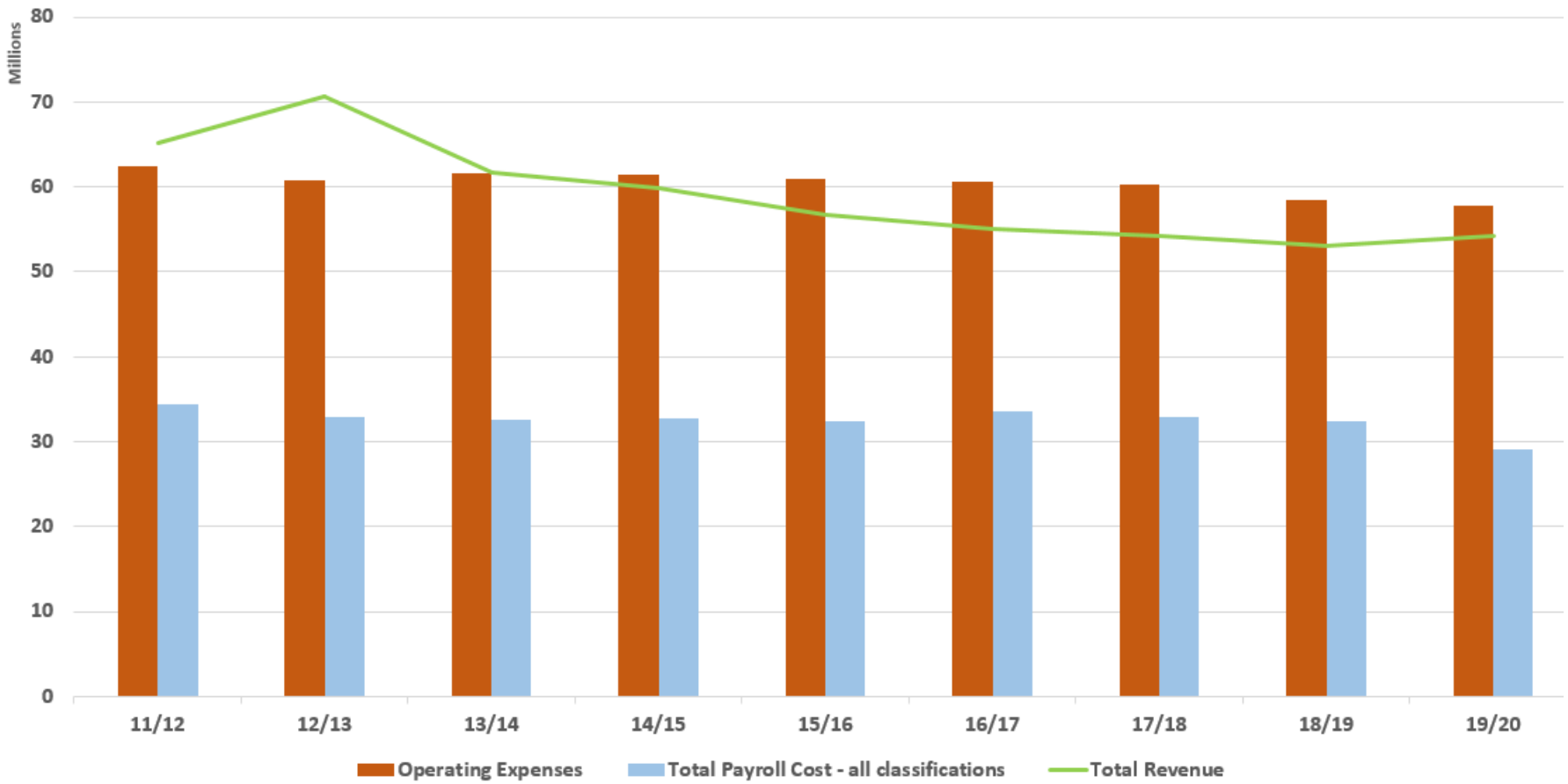
	Budget FY2019	Pre-Audited FY2019	*Budget to Actual Variance*	Budget FY2020
Total Revenue	48,393	52,127	*3,734*	54,197
Total Expenses	52,452	57,725	*5,273*	57,743
Increase (Decrease) in Net Position	(4,059)	(5,598)	*(1,539)*	(3,546)
Increase (Decrease) in Cash	(2,097)	(1,783)	*314*	(253)
Ending Cash	9,248	9,211	*(37)*	8,961
*Days Cash on Hand**	76	67	-9	65**

* Industry Standard is 90 days

** Better than most other West Virginia institutions

BOG Task Force

FY2012 – FY2020 Comparison
Revenue/Expenses/Payroll



What’s new on the horizon

Networking with Community Colleges

- A working table comprised of numerous 2+2 agreements involving Shepherd and 54 community colleges has been developed by Drs. Hicks and Beard - - for the purpose of strategic follow up to enhance transition to Shepherd.
- A meeting between the presidents of Blue Ridge Community and Technical College and Shepherd occurred in July 2019 to discuss areas of mutual interest and forge new partnerships. These include a 2+3 agreement (AA to MBA); purchase of vegetables from Tabler Farm; providing a food and beverage truck for home athletic events; and a joint discussion about a BioInnovation Initiative.

Tabler Farm: Shepherd University Agricultural Center

First Year of Progress:

- Electric service established and substantial building wiring completed
- High-speed internet service established
- Well refurbished and water lines installed
- High tunnel greenhouse constructed and crops being grown
- First open house and two-day Farm-to-School Workshop successfully held
- Former milking parlor: Major exterior renovations, wired for electricity and lights, water lines run to building, interior walls cleaned and primed, tanks for aquaponics donated
- Solar Array: 5.76 kW of production installed and operational producing approximately 8,000 kWh of clean free electricity per year
- Over 100 apple, pear, peach and nectarine trees have been planted
- Apiary: Four honey-bee colonies established and observation hive bees were displayed at the Spring Mills HS STEAM Festival and the Scarborough Library Children's Non-Fiction Collection Celebration
- Collaborations with USDA-NRCS, Martinsburg VA Hospital, WV National Guard, USDA Fruit Research Station, Charles Town VFW, Local Schools, etc.
- An official Advisory Group was formed - - comprised of University and community members

Shepherd Entrepreneurship and Research Corporation (SERC)

Steps:	Step 1	Step 2	Step 3	Step 4	Step 5	Step 6
PROJECTS:	Shepherd Assets Identified	Memoradum of Understanding established with license fee for Shepherd	Scope of Work for first contract/grant	First contract/grant Signed	Execution on first contract/grant	First Contract / Grant completion and closure
Center for Regional Innovation	✓					
Drones	✓	✓	✓	✓	✓	✓
Popodicon	✓	✓	✓	✓	✓	✓
FASTEnER Lab	✓	✓				
Tabler Farm	✓	✓	✓	✓	✓	
Society for Creative Writing	✓	✓	✓	✓	✓	✓
CMI2	✓	✓				
Institute for Civil Political Communications	✓	✓	✓	✓	✓	✓

Turner and Kenamond Re-Purpose Opportunities

SPACES AVAILABLE

- *35,773 sq.ft.*
- *Open Flexspace*
- *Meeting Rooms*
- *Training Rooms*
- *Testing and Quality Assurance*
- *Highly sought river view*
- *Outdoor event space*
- *Office Space with serving facilities*

SPACES AVAILABLE

- *30,198 sq. ft.*
- *Open Flexspace*
- *Meeting Rooms*
- *Training Rooms*
- *Testing and Quality Assurance*
- *Two story, multimedia event space*
- *Office Space with serving facilities*

- A Request for Information (RFI) was distributed on 6/20/19 to eight groups and was placed on Shepherd's procurement website.
- Two groups responded to the RFI.

<u>Possible Space Uses</u>

There are multiple potential uses to design the remodel of Turner and Kenamond. Possible room use considerations include:

- Quality Improvement Teams
- Software Testing Labs
- Hardware Testing Labs
- Event Space
- Conference Facilities
- Office Space
- Student Groups
- Workforce Training Classrooms
- Academic Classrooms
- Independent Living Facility

WV Politics in Higher Education

- Shepherd witnessed the most successful legislative session in its history in 2019.
- We received a 31% increase in annual state appropriations ($3,012,287), advancing our rank from 10th/10 to 4th/10. $500K of this amount was specifically dedicated for infrastructure improvements.
- Blue Ribbon Commission bill eliminated state-wide master plan and institutional compacts.
- $105 million was added to PEIA reserve fund, allowing a freeze in premiums and any decreases in benefits for at least two years.
- We continue to work closely with our legislators to sustain and advance Shepherd's annual state appropriations.

The Bonnie and Bill Stubblefield Institute for Civil Political Communications

- Established by the Stubblefield family with a $1 million donation.
- This new entity is housed in the Frank Center, and the inaugural director is Mr. David Welch. David has more than 30 years of experience as a creative and strategic media adviser to political candidates throughout the nation. He has also created award branding campaigns for such organizations as the Edward M. Kennedy Institute for the U.S. Senate, the Biotechnology Industry Organization, and the Society for Neuroscience. Locally, he is the host of the longtime morning radio show, Eastern Panhandle Talk with Rob and Dave.
- The mission of the Institute is to promote civil discourse in political discussions and provide a venue for distinguished speakers, town hall meetings, and possibly gubernatorial and presidential candidates debates.
- The Board of Advisers: Mr. David Welch (ex officio), Dr. Bill Stubblefield, Mr. David Avella, Dr. Scott Beard, Ms. Jordan Jalil, Dr. Ben Martz, Dr. Stephanie Slocum-Schaffer and Mr. Scott Widmeyer.

For additional information, please see https://www.shepherd.edu/icpc

Transforming Our Future

Overview of Campaign Timetable

I. Campaign Planning and Early Leadership Phase

February 2019 to September 2019 (approximately 7 months)

- Approve campaign title, complete working operating plan
- Identification of campaign leadership (Gat Caperton, Ray Alvarez, R.B. Seam, and Tom Miller)
- Approval and commitment of all partner boards and MOU's
- Needs assessment begins with campus to determine campaign priorities
- Prioritization of initial campaign objectives and dollar amounts for quiet phase

II. Campaign "Pre-Quiet to Quiet" Phase

September 2019 to September 2022 (approximately 36 months)

- Leadership gift solicitations of partner board members
- Focus on major gifts solicitations
- Determination of public phase campaign $ goals and objectives

III. Campaign Public Phase

September 2022 to June 30, 2024 (approximately 21 months)

- Public announcement event
- Completion of major solicitations to meet goal
- Enhanced annual giving activities in the campaign completion phase to solicit grass roots contributions

Shepherd University Emergency Operations Plan
(EOP)

(Jack Shaw*, John McAvoy, Holly Frye and Jim King)

SUMMER 2019: COMPLETED

- Emergency Response Guidelines established, published, distributed, and communicated to key stakeholders (deans, department heads, and building managers)
- Evacuation Routes Posted in Classrooms
- Emergency *"HOW TO" Posted* in Classrooms
- Multi Agency Law Enforcement Active Shooter Training

ONGOING: 2019

- Campus Training for Critical Incidents
- Testing the Plan
- Evaluating Results
- Updating and Improving

Shepherd University EOP (cont.)

FALL 2019: IN PROGRESS

- Develop teams to complete hazard, severity, and probability of impact analysis.
- Develop EOP utilizing the Incident Command System (ICS).
  - Incident Management Team - Tasked with coordinating campus emergency preparedness, ensuring campus communication, and providing direction to departments in coordinated emergency efforts.
  - Threat Assessment Team - Tasked with assessing threats to campus community, planning departmental level plans, and creating a Continuity of Operation Plan (COOP).
- Tabletop exercises with Incident Management Team
- Planned academic building evacuation
- Determine goals/objectives by setting operational priorities - where probability and vulnerability collide.
- Development of Plan and Beyond - Basic plan to launch in Fall focused on broad goals and channels of communication.
- EOP to be updated after completion of Threat Assessment Team analysis.

For Emergencies Dial 911

Shepherd University EOP - Next Steps

Prevention, Mitigation, and Protection:

- Engage Community/Form Collaborative Team - in progress
- Understand the Situation - Form Incident Management and Threat Assessment Teams to complete hazard, severity, and probability of impact analysis throughout Fall 2019.
- Determine Goals/Objectives - Executive Leadership Team (ELT) and Incident Management Team to review Threat Assessment Team analysis.
- Set Operational Priorities - Where probability and vulnerability collide.
- Plan Development and Beyond - Basic plan to launch in Fall 2019 focused on broad goals and channels of communication. EOP to be updated after completion of Threat Assessment Team analysis. Begin addition of Annex plans and COOP.

Additional Advancements

- Shepherd Telehealth will be offered to faculty, staff and those affiliated with Shepherd, such as Lifelong Learning and Wellness Center members, alumni, and retirees - - for a fee of $40 per year for unlimited access.
- A food pantry for students is under development to address food insecurity at Shepherd. Mountaineer Food Bank completed a site inspection of the anticipated location on August 20. The food pantry will open on October 1, 2019.
- Patent Policy for Inventors – Dr. Mary J.C. Hendrix and Mr. Alan Perdue are updating Shepherd's policy to enhance patent and copyright activity.
- The Take STOC: Smoking and Tobacco Off Campus committee is working on the final details for the cessation of smoking and tobacco products at Shepherd, beginning January 1, 2020. Shepherd will then join the majority of other four-year colleges in West Virginia who also have a similar ban on their campuses.
- A 189 panel, 60.84 kW solar array went into production this summer on the roof of the Scarborough Library. This array will generate thousands of dollars of free clean energy every year and was funded by an $100k EBSCO Solar Grant awarded to Ms. Rachel Hally and Dr. Jeff Groff. This project was completed by Solar Holler based in Shepherdstown and made possible by the work of many individuals including Mr. Dustin Robbins and Mr. Jim King in Facilities.

Transforming our Future

- We are entering a phase of change - - with strict budget constraints, streamlining our operations, and re-inventing our University to meet the evolving needs of our various student populations.
- We need to differentiate ourselves among our peer institutions. We care deeply about our students' success.
- The next two years will test our resilience - - and our ability to be fiscally responsible. This is not an option. It is an imperative.
- Thank you in advance for all your efforts to implement financial best practices. The institution will emerge with a much brighter future.

APPENDIX J: Shepherd University Board of Governors 09/19/19 Meeting - Task Force Resolution

RESOLVED, That the Shepherd University Board of Governors declares its commitment to maintaining the financial stability of the University and to the ongoing review of revenues and expenditures to achieve appropriate ratios.

To that end, the Board finds that:

1. Expenditures must be managed to not exceed reasonable projections for revenues;
2. Initiatives for enhancing revenues should be encouraged;
3. Reductions in expenditures must be achieved in a deliberate manner by which the quality of the student experience is not damaged; and
4. Long-term as well as short-term decisions must be implemented to achieve and maintain a more appropriate alignment of expenses to revenue levels.

The Board re-affirms its direction in the June 2019 meeting of the Board, establishing a maximum reduction of the ending cash balance of $250,000 for FY2020.

The Board further directs that policy, personnel and budget planning must be adjusted during the current fiscal year, and on an ongoing basis, to ensure that the University will maintain levels of total expenses which will allow the University to replenish recently diminished cash reserves in an incremental manner while also increasing the University's capital expenditures to address critically needed deferred maintenance.

The Board further directs the President and Provost to develop and maintain an oversight of faculty workload to insure that student credit hour production is utilized as a central measure of equalized faculty workload at levels determined to be sufficient to achieve financial effectiveness for the University and appropriate to Shepherd's mission, with appropriate ratios of release time and other mitigating factors as determined necessary and proper. To that end, the Board directs that a Notice to the University community of amendment of Policy 19 and of the Faculty Handbook, to be prospectively implemented January 2, 2020, for the spring semester, relating to Faculty Workload, as follows:

Distribution of Workload

For a full-time teaching faculty member without administrative duties, the normal teaching load is twelve (12) credit hours per semester and twenty-four (24) credit hours per academic year (defined as fall and spring semesters), which is commensurate with the recommendations of the University's accrediting agencies and the Board of Governors. In determining semester-hour loads, consideration is given to laboratory assignments, applied music lessons, supervision of student teaching and coaching duties. It is also expected that a certain and reasonable student credit hour production will be maintained in addition to the established credit hour load. The Provost shall establish a uniform, statistical analysis of student credit hour production, taking into account official release time granted and other exigent circumstances, and establishing therein a reasonable per-semester benchmark. If a faculty member's student credit hour production fails to achieve 75% of the established faculty SCH production benchmark, then the Provost may direct the assignment of an additional course(s) in the following semester(s), as indicated, as may be necessary and proper to provide for a more-equalized student credit hour workload. If the faculty member achieves between 75% and 95% in successive semesters

and cumulatively accrues a 25% deficiency over such successive semesters [two, or more successively], then the Provost may direct the assignment of an additional course in the following semester, as may be necessary and proper to provide for a more-equalized student credit hour workload.

The Board further directs that the University's "pre-quiet-phase" fundraising initiatives shall be extended for six months, and that this extension decision is to be revisited by the Board periodically during the remainder of this fiscal year.

The Board further directs that effective for FY21, faculty sabbaticals shall not exceed two in any semester, subject to further action of the Board.