Shepherd University

Financial Statements as of and for the Years Ended
June 30, 2016 and 2015, and Independent Auditors'
Reports

SHEPHERD UNIVERSITY

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CliftonLarsonAllen LLP
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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 State of West Virginia), as of and for the years ended June 30, 2016 and 2015, 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 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.

To the Governing Board
Shepherd University

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

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, 2016 and 2015, 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.

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 - 10 and the Schedule of Proportionate Share of Net Pension Liability and Contributions on page 65, 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 February 7, 2017, 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 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 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
February 7, 2017

Shepherd University

Management Discussion and Analysis

Fiscal Years 2016 and 2015

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 Music and Music Education. 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 2016 data compared to the financial statements presented for fiscal year 2015. 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, 2016, and 2015. 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		
	2016	2015	2014*
Assets:			
Cash	$ 16,260	$ 17,879	$ 16,213
Other Current Assets	1,938	1,456	1,465
Noncurrent Assets	127,425	132,102	135,387
Total Assets	145,623	151,437	153,065
Total Deferred Outflows of Resources	54	43	-
Total Assets and Deferred Outflow of Resources	145,677	151,480	153,065
Liabilities:			
Current Liabilities	7,718	8,160	7,166
Noncurrent Liabilities	52,120	53,260	53,810
Total Liabilities	59,838	61,420	60,976
Total Deferred Inflows of Resources	287	235	-
Total Liabilities and Deferred Inflows of Resources	60,125	61,655	60,976
Net Position:			
Net Invesment in Capital Assets	85,100	88,289	90,372
Restricted - Expendable	281	322	199
Unrestricted	170	1,214	1,518
Total Net Position	$ 85,551	$ 89,825	$ 92,089

* Does not include the implementation of GASB Statement No. 68.

Assets

Total Assets decreased approximately 3.82 percent to $145.7 million compared to $151.5 million for 2015. However, within current assets, cash decreased by $1.62 million from the previous year. The decrease in cash is primarily due to the decrease in current liabilities, specifically Accounts Payable, as two check runs were processed in June 2016 compared to one in 2015.

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 large capital projects in 2016 that would have offset accumulated depreciation. Non-current assets decreased by $4.68 million compared to 2015.

The net result of fiscal year 2016 activities resulted in a $5.80 million decrease in total assets.

Deferred Outflows of Resources:

There was 25.58% increase in Deferred Outflows from FY 2015 to FY 2016. Deferred outflows of resources are the consumption of net position by the University that is applicable to future years. In 2016, the University had deferred outflows of resources related to pensions of $53,708 as a direct result of the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pension.* This deferred outflow of resources directly relate to the required contributions the University has made on behalf of employee enrolled in the defined benefit pension plan.

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 2.58% from 2015 to 2016.

Significant changes include:

- A decrease in Accounts payable of $803,874 from 2015 to 2016 due to the more timely payment of invoices and a second check run in June.

- In 2016 the University converted to the State OASIS payroll system and changed from bi-monthly to bi-weekly paydays. This, along with a 2% wage increase, resulted in an increase in accrued wages of approximately $270,000.

- An increase in the OPEB liability of $592,687 due to an updated actuary study 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 $1.41 million resulting from bond premium 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 2016, the University had deferred inflows of resources related to pensions of $287,463, as a direct result of the implementation of GASB Statement No. 68.

Net Position

From 2015 to 2016 total net position decreased by $4.3 million. During the year, net investment in capital assets – net of related debt, decreased approximately $3.2 million. This reflects the University's continued reduction in investments in capital assets over the last few years. Unrestricted net position overall decreased significantly by $1.0 million as a result of the implementation of GASB No. 68 to record the unfunded pension liabilities and the continuing decline in operating results due to the enrollment declines and decrease in State appropriations.

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 spent 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,		
	2016	2015	2014*
Operating Revenues	$ 40,808	$ 43,174	$ 43,863
Operating Expenses	59,002	59,427	59,339
Operating Loss	(18,194)	(16,253)	(15,476)
Nonoperating Revenues - Net	13,920	14,683	14,512
Loss before Other Revenues, Expenses, Gains or Losses	(4,274)	(1,570)	(964)
Capital and Bond Proceeds from State	-	1	1,092
Increase (Decrease) in Net Position	(4,274)	(1,569)	128
Net Position - Beginning of Year	89,825	92,089	91,961
Cummulative effect of change in accounting principle	-	(695)	-
Net Position - Beginning of Year, restated	89,825	91,394	91,961
Net Position - End of Year	$ 85,551	$ 89,825	$ 92,089

* Does not include the implementation of GASB Statement No. 68.

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 2016 decreased by $2.37 million or 5.5 percent.

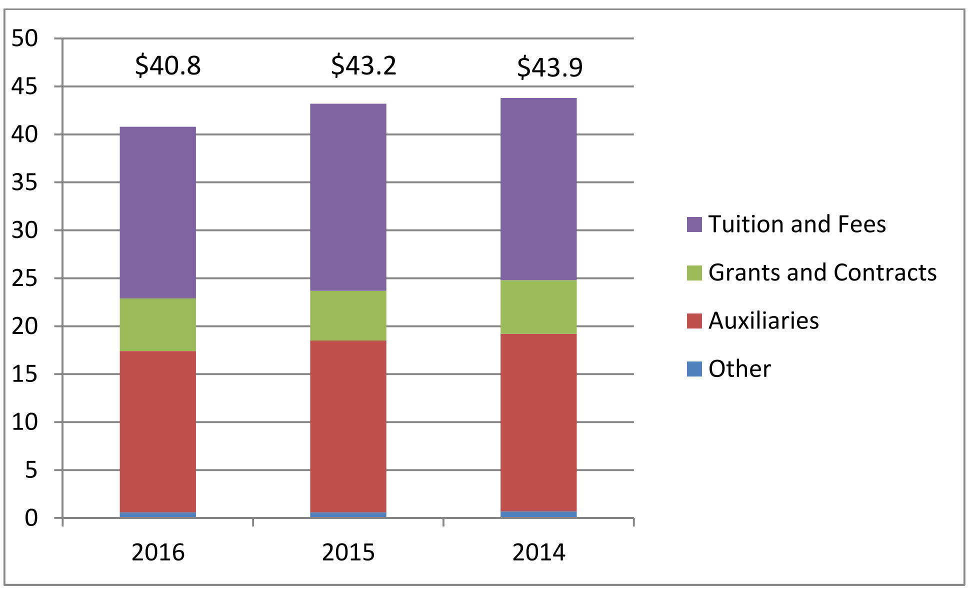
During fiscal year 2016, student tuition and fees revenue decreased from 2015 by $1.67 million or 8.5 percent due to a combination of a 3.9 percent in-state only tuition increase and a continuing enrollment shortfall. Overall, student tuition and fees as a percentage of total operating revenues decreased from 45.2 percent to 43.7 percent.

Grants and contracts comprise approximately 13.6 percent of the operating revenues and total $5.55 million in 2016. This is a $427,748 increase from 2015, which is a result of an increase in federal grants to $707,662.

Auxiliary Enterprise Revenue, which includes resources generated by the operation of the bookstore, wellness center, dining services and residence halls, experienced a decrease of $1,085,296 or 6.06 percent in 2016. The decrease is attributed to the enrollment shortfall experience throughout the year.

Operating Revenues – FY 2016-2014

(In millions)



Operating Expenses:

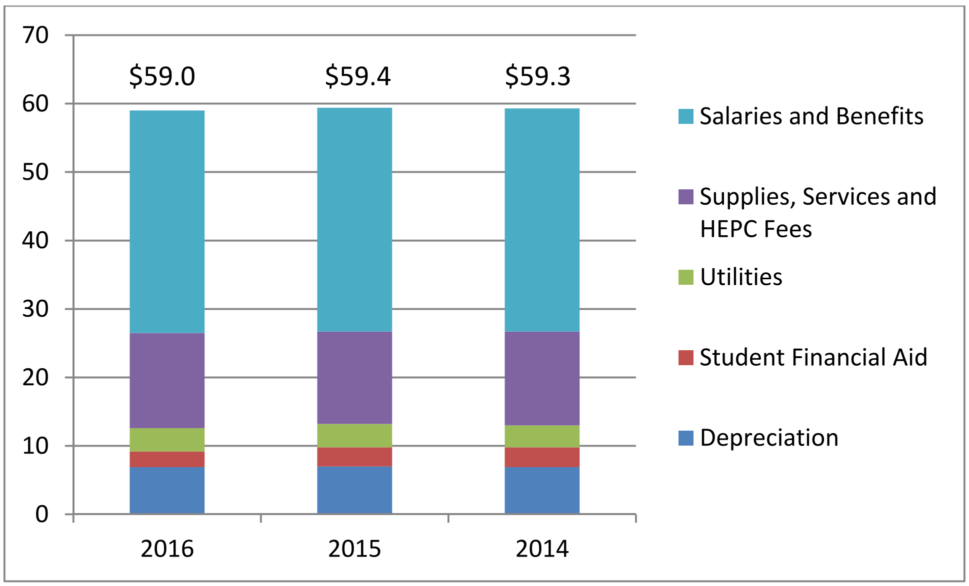
Overall, 2016 operating Expenses remained relatively flat when compared to 2015, decreasing slightly by $424,853.

Salaries and benefits represent 55 percent of the total 2016 operating expenses and this is consistent with 2015. Employee compensation, including benefits, decreased by $240,089 compared to 2015. This was mainly the result of an institutional mandated three to six month hiring delay in filling vacancies. Supplies and other services increased by 3.17%, or $418,003. This was due to increased building maintenance costs as well as other unavoidable expenses including those associated with the record snowfall in January 2016. Student Financial Aid decreased $532,783, or 18.95%, in alignment with the declining student enrollments.

The University continued to implement University wide cost containment strategies to offset fixed cost increases for 2016.

Operating Expenses – FY 2016-2014

(In millions)



Non-operating Revenues (Expenses)

Net Nonoperating Revenues decreased $763,348, 5.2% in 2016.

There are two material changes in non-operating revenues (expenses). The State appropriations decreased 5.06% from 2015 by $503,027 to $9.4 million. Additionally, PELL Revenues declined 5.83%, $314,842 due to the continuing decline in enrollments.

The net result of operating and non-operating revenues and expenses was a loss of approximately $4.3 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 $31.9 million and payments to suppliers of $13.7 million. Net cash used for operating activities decreased by $2.4 million from 2016 to 2015 primarily due to the decline in enrollment which resulted in the reduction in Student Tuition & Fees and Auxiliary Revenues of nearly $3 million dollars. Payments to Suppliers & Utilities also increased by $1.1 million. The reduction in cash receipts and increase in expenditures were offset by reductions in payments to employees and payments to scholarships and an increase in Contract & Grant revenues.

State appropriations and Federal Pell grants and Direct Loans are the primary sources of non-capital financing activities. Generally Accepted Accounting Principles require that the University reflect this State revenue as non-operating revenue even though the University's budget depends on this to continue the current level of operations. There is a decrease of $1.3 million due to a 5% reduction in state appropriations of $503,027 and the balance is due to a reduction in PELL and loans as a result of the decline in enrollments. Gift receipts were down about $60,000 over 2015.

Capital financing activities represent funds that were used to purchase or add value to capital assets. As in 2015, the University did not undertake any substantial capital projects for 2016 and capital asset purchases were kept to a minimum, with the Net Cash Used in Capital Financing Activities down 5.68%, $380,307 in 2016 as compared to 2015.

Overall cash and cash equivalents at 2016 year–end decreased $1.6 million.

Condensed Consolidated Schedules of Cash Flows

(In thousands)

	Years Ended June 30,		
	2016	2015	2014
Net cash (used in) provided by:			
Operating activities	$ (11,049)	$ (8,641)	$ (8,837)
Noncapital financing activities	15,688	16,986	16,391
Capital and related financing activities	(6,320)	(6,700)	(8,442)
Investing activites	61	21	421
Increase (decrease) in Cash	(1,620)	1,666	(467)
Cash and cash equivalents - beginning of year	17,879	16,213	16,680
Cash and cash equivalents - end of year	$ 16,259	$ 17,879	$ 16,213

Economic Outlook

Current and foreseeable economic conditions continue to place a pressure on Shepherd's financial capabilities. Recently implemented federal financial aid requirements increased the standards for student assistance eligibility. As such, the number of students eligible to continue receiving financial aid did decrease and continues to adversely affect enrollment. This was a challenge going into 2016 and will continue for the foreseeable future. Shepherd University's state appropriation was reduced by $503,027 for 2016. Since 2014 the State has reduced its investment in Shepherd by 15.95% or $1.7 million. The FY17 appropriation restored some of the reduction but a 2% mid-year rescission reduced state support below 2016 levels. This reduction in State investment was accounted for in building the University's FY17 operating budget. Although Shepherd's reliance upon state investment is among the lowest in the state, continued dis-investment by the state in higher education will cause the University to continue to examine existing resources, reallocate or reinvest as necessary and enhancement of new revenue opportunities.

In March 2016, Dr. Mary J.C. Hendrix became the 16th President of Shepherd and the first graduate to lead the school in its history. Dr. Hendrix is a leading scientist in cancer research and has been well received by both the University as well as local community. She brings much needed enthusiasm and optimism of Shepherd's future at a time when it is most needed.

Feasibility studies and research continue allowing Shepherd to continue to develop and offer new market-driven programs. Two new degree programs began in fall 2016 - a Bachelor of Science in data analytics and a Bachelor of Arts in global studies. Shepherd is the first college in West Virginia and one of the few in the region to offer a bachelor's degree in big data.

The University is focusing on enhancing its enrollment through increased retention by establishing a Retention Interventions Team (RIT) giving every undergraduate a dedicated staff advocate. Rigorous efforts are being made to maximize every opportunity to improve student success to increase retention of existing students. Attracting more international students to Shepherd is also a strategy the University is employing to grow enrollment and revenue. As a third enrollment and revenue growth strategy the University is planning for improved on-campus housing options for our students.

The Shepherd University Advancement Office in partnership with the Shepherd University Foundation continues 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.

Strategies for setting tuition rates will be thoughtful and thorough to balance student affordability and the need for increased revenue. Because of recent enrollment declines, the focus in the upcoming years will be to control costs to students and attracting more residential and out-of-state students.

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

SHEPHERD UNIVERSITY

STATEMENTS OF NET POSITION
AS OF JUNE 30, 2016 AND 2015

	2016	2015
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 16,259,698	$ 17,879,306
Accounts receivable — net	1,238,418	675,171
Due from Commission	42,941	17,910
Prepaid expense	-	57,902
Loans to students — current portion	100,091	100,091
Inventories	557,019	604,895
Total current assets	18,198,167	19,335,275
NONCURRENT ASSETS:		
Other Receivable	306,858	306,858
Loans to students — net of allowance of $434,318 and $423,341 in 2016 and 2015, respectively	401,897	333,957
Capital assets — net	126,716,045	131,460,589
Total noncurrent assets	127,424,800	132,101,404
TOTAL ASSETS	145,622,967	151,436,679
TOTAL DEFERRED OUTFLOW OF RESOURCES:		
Deferred outflows related to pensions	53,708	42,953
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	$ 145,676,675	$ 151,479,632

(Continued)

SHEPHERD UNIVERSITY

STATEMENTS OF NET POSITION
AS OF JUNE 30, 2016 AND 2015

LIABILITIES, DEFERRED INFLOWS AND NET POSITION	2016	2015
CURRENT LIABILITIES:		
Accounts payable	$ 1,508,313	$ 2,312,187
Accrued liabilities	2,836,010	2,565,174
Compensated absences — current portion	768,650	789,814
Unearned revenues	869,099	773,839
Deposits held in custody for others	138,594	189,003
Bonds payable — current portion	1,455,000	1,390,000
Capital lease obligations — current portion	142,462	140,114
Total current liabilities	7,718,128	8,160,131
NONCURRENT LIABILITIES:		
Advances from federal sponsors	509,471	511,662
Compensated absences	440,979	426,196
Other postemployment benefits liability	10,824,012	10,231,325
Net pension liability	327,328	449,352
Bonds payable, net of current portion	39,550,925	41,031,552
Capital lease obligations, net of current portion	467,073	609,535
Total noncurrent liabilities	52,119,788	53,259,622
Total liabilities	59,837,916	61,419,753
DEFERRED INFLOW OF RESOURCES:		
Deferred inflows related to pensions	287,463	234,570
NET POSITION:		
Net Investment in capital assets	85,100,585	88,289,388
Restricted — expendable:		
Loans	95,672	96,327
Other restricted	184,840	225,266
Total restricted - expendable	280,512	321,593
Unrestricted	170,199	1,214,328
Total net position	85,551,296	89,825,309
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION	$ 145,676,675	$ 151,479,632

See notes to financial statements. (Concluded)

SHEPHERD UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
OPERATING REVENUES:		
Student tuition and fees — net of scholarship allowance of $11,028,449 and $10,708,656 in 2016 and 2015, respectively	$ 17,850,092	$ 19,524,283
Contracts and grants:		
Federal	1,197,769	490,107
State	4,324,949	4,601,090
Private	31,664	35,437
Interest on student loans receivable	14,776	13,829
Sales and services of educational activities	45,516	37,113
Auxiliary enterprise revenue — net of scholarship allowance of $908,379 and $653,958 in 2016 and 2015, respectively	16,819,807	17,905,103
Other operating revenues	523,113	567,069
Total operating revenues	40,807,686	43,174,031
OPERATING EXPENSES:		
Salaries and wages	26,177,277	26,211,670
Benefits	6,302,581	6,508,277
Supplies and other services	13,624,775	13,206,772
Utilities	3,412,297	3,372,230
Student financial aid — scholarships and fellowships	2,279,367	2,812,150
Depreciation	6,929,902	7,022,709
Fees assessed by the Commission for operations	276,004	293,248
Total operating expenses	59,002,203	59,427,056
OPERATING LOSS	(18,194,517)	(16,253,025)

(Continued)

SHEPHERD UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
NONOPERATING REVENUES (EXPENSES):		
State appropriations	$ 9,438,077	$ 9,941,104
Payments on behalf of the University	52,512	59,983
Federal Pell grants	5,083,829	5,398,671
Investment income	61,318	21,459
Interest expense	(1,935,326)	(1,993,067)
Fees assessed by the Commission for debt service	(37,820)	(37,820)
Gifts	1,259,448	1,319,646
Gain (loss) on disposal of equipment	23	(25,488)
Other	(1,557)	(636)
Net nonoperating revenues	13,920,504	14,683,852
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	(4,274,013)	(1,569,173)
CAPITAL AND BOND PROCEEDS FROM THE STATE	-	600
DECREASE IN NET POSITION	(4,274,013)	(1,568,573)
NET POSITION — Beginning of year	89,825,309	92,089,048
Cummulative effect of change in accounting principle	-	(695,166)
NET POSITION - Beginning of year, as restated	89,825,309	91,393,882
NET POSITION — End of year	$ 85,551,296	$ 89,825,309

See notes to financial statements. (Concluded)

SHEPHERD UNIVERSITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	$ 17,849,251	$ 19,166,089
Contracts and grants	5,445,769	5,091,821
Payments to and on behalf of employees	(31,941,569)	(32,240,443)
Payments to suppliers	(13,716,158)	(12,904,969)
Payments to utilities	(3,415,361)	(3,162,684)
Payments for scholarships and fellowships	(2,279,367)	(2,812,150)
Loans issued to students	(144,104)	(160,300)
Collection of loans to students	90,940	127,000
Sales and service of educational activities	45,516	37,113
Auxiliary enterprise charges	16,769,398	17,944,039
Fees assessed by the Commission	(276,004)	(293,248)
Other receipts — net	523,113	567,070
Net cash used in operating activities	(11,048,576)	(8,640,662)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	9,438,077	9,941,104
Federal Pell grants	5,083,829	5,398,671
Gifts	1,259,448	1,319,010
Federal student loan program — direct lending receipts	19,764,104	21,030,982
Federal student loan program — direct lending payments	(19,857,528)	(20,703,921)
Net cash provided by noncapital financing activities	15,687,930	16,985,846
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Capital and bond proceeds from the State	-	600
Interest paid on capital debt and leases	(1,935,326)	(1,993,067)
Purchases of capital assets	(2,817,020)	(3,140,354)
Bond and lease proceeds	-	-
Principal paid on capital debt and leases	(1,530,114)	(1,529,946)
Withdrawals from (deposits to) noncurrent cash and cash equivalents	-	-
Fees assessed by the Commission	(37,820)	(37,820)
Net cash used in capital financing activities	(6,320,280)	(6,700,587)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investment	-	2
Interest on investments	61,318	21,459
Net cash provided by investing activities	61,318	21,461
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,619,608)	1,666,058
CASH AND CASH EQUIVALENTS — Beginning of year	17,879,306	16,213,248
CASH AND CASH EQUIVALENTS — End of year	$ 16,259,698	$ 17,879,306

(Continued)

SHEPHERD UNIVERSITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (18,194,517)	$ (16,253,025)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	6,929,902	7,022,709
Net accretion of premiums/discounts on bonds payable	(25,627)	(26,791)
Effect of changes in operating Assets and Liabilities:		
Accounts receivables — net	(469,823)	(138,112)
Other receivable	-	(306,858)
Prepaid expense	57,902	10,362
Loans to students — net	(67,940)	(47,129)
Due from the Commission	(25,031)	(17,910)
Inventories	47,876	(173,058)
Accounts payable	(173,747)	701,979
Accrued liabilities	270,836	179,994
Compensated absences	(6,381)	28,320
Other postemployment benefits liability	592,687	571,190
Net pension liability	(27,374)	5,786
Deferred revenue	95,260	(222,142)
Deposits held in custody for others	(50,409)	38,936
Advances from federal sponsors	(2,190)	(14,913)
NET CASH USED IN OPERATING ACTIVITIES	$ (11,048,576)	$ (8,640,662)
NONCASH TRANSACTIONS		
Property additions in accounts payable	$ (630,128)	$ (1,039,994)

See notes to financial statements. (Concluded)

SHEPHERD UNIVERSITY FOUNDATION, INCORPORATED
AND SUPPORTING ORGANIZATION
A COMPONENT UNIT OF SHEPHERD UNIVERSITY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
Cash and cash equivalents	$ 23,098,204	$ 1,991,988
Pledges receivable (net of present value adjustment)	3,198,673	3,318,446
Other receivables	187	6,136
Accrued interest receivable	32,829	33,360
Prepaid expenses	1,582	1,582
Investments	21,523,684	23,206,339
Interest in life estate	335,035	318,582
Loan origination costs, net	567,578	-
Construction in Progress	2,001,552	-
Equipment, net	6,132	5,509
Total Assets	$ 50,765,456	$ 28,881,942
LIABILITIES		
Accounts payable	$ 1,049,505	$ 7,322
Retainage payable	54,895	$ -
Accrued payroll	11,866	8,648
Accrued interest	15,619	-
Custodial liabilities	1,574,435	2,012,091
Gift annuities payable	134,983	146,905
Loans payable	22,385,000	-
Total Liabilities	$ 25,226,303	$ 2,174,966
NET ASSETS		
Unrestricted	$ (6,772,981)	$ (4,567,872)
Temporarily restricted	7,079,385	6,737,382
Permanently restricted	25,232,749	24,537,466
Total Net Assets	$ 25,539,153	$ 26,706,976
Total Liabilities and Net Assets	$ 50,765,456	$ 28,881,942

SHEPHERD UNIVERSITY FOUNDATION, INCORPORATED
AND SUPPORTING ORGANZIATION
A COMPONENT UNIT OF SHEPHERD UNIVERSITY
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CHANGES IN UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Other revenue	$ 23,311	$ 23,035
Net realized and unrealized gains on investments	(1,472,419)	(1,505,565)
Transfers	(52,414)	(38,338)
Net assets released from restrictions	1,585,938	1,539,026
Total Revenue and Other Support	84,416	18,158
EXPENSES		
Program services:		
Scholarships and awards	1,509,129	1,445,617
College support	76,809	94,412
General and administrative:		
Salaries	333,748	327,345
Investment management fees	127,948	149,545
Printing and reproduction costs	30,593	32,816
Payroll taxes and benefits	51,440	50,198
Depreciation	6,509	6,737
Amortization	21,485	-
Administrative expense	2,162	1,630
Rent	12,600	12,600
Office supplies and postage	9,798	7,159
Insurance	6,499	5,275
Changes in gift annuities	9,935	10,910
Professional fees	51,653	19,808
Staff training	263	238
Program development	30,199	28,003
Telephone	2,621	2,331
Technology	2,407	1,983
Bad debt expense	3,000	-
Miscellaneous	727	1,210
Total Expenses	2,289,525	2,197,817
Change In Unrestricted Net Assets	(2,205,109)	(2,179,659)

(Continued)

SHEPHERD UNIVERSITY

SHEPHERD UNIVERSITY FOUNDATION, INCORPORATED
AND SUPPORTING ORGANIZATION
A COMPONENT UNIT OF SHEPHERD UNIVERSITY
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Cash contributions	$ 1,092,075	$ 1,042,244
Stock contributions	12,177	47,270
Other non-cash contributions	6,125	79,455
Other revenue	10,613	11,951
Interest and dividends	588,215	594,348
Net realized and unrealized gains on investments	142,083	118,812
Transfers	76,653	17,514
Net assets released from restrictions	(1,585,938)	(1,539,026)
Change inTemporarily Restricted Net Assets	342,003	372,568
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Cash contributions	670,709	308,076
Stock contributions	6,611	30,353
Other non-cash contributions	16,454	15,929
Interest and dividends	25,748	25,032
Transfers	(24,239)	20,824
Change in Permanently Restricted Net Assets	695,283	400,214
Decrease in Net Assets	(1,167,823)	(1,406,877)
NET ASSETS - Beginning of year	26,706,976	28,113,853
NET ASSETS - End of year	$ 25,539,153	$ 26,706,976

(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 provide 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, 2016 and 2015, 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 19).

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, 2016 or 2015.

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 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 fair market 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 14).

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, 2016 and 2015, the University had deferred outflows of resources related to pensions of $53,708 and $42,953, respectively (see Note 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, 2016 and 2015, the University had deferred inflows of resources related to pensions of $287,463 and $234,570, respectively (see Note 14).

Compensated Absences and 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.

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.

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 2016 and 2015, the University received and disbursed approximately $20 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 2016 and 2015, the University received and disbursed $5,266,767 and $5,590,561, 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.

Newly Adopted Statements Issued by the Governmental Accounting Standards Board ─ The University has implemented GASB Statement No. 72, *"Fair Value Measurement and Application"*, effective for fiscal years beginning after June 15, 2015. This statement provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The adoption of this statement did not have a material impact on the financial statements.

The University has also implemented Statement No. 73, *"Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68"*. The requirements of this statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2016, and the requirements of this statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015.

This statement establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions that are provided to the employees of state and local governmental employers and are not within the scope of Statement 68. This statement also establishes requirements for pensions that are provided through pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. This statement also establishes requirements for governments that hold assets accumulated for purposes of providing pensions through defined benefit pension plans that are not administered through trusts that meet certain criteria and amends certain provisions for pension plans that are within the scope of Statement 67 and for pensions that are within the scope of Statement 68.

The University has also implemented Statement No. 76, *"The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments"*, which is effective for fiscal years beginning after June 15, 2015. This statement establishes the hierarchy of GAAP for state and local governments. The adoption of this statement did not have a material impact on the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The University has also early implemented Statement No. 78, *"Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans"*, which is effective for fiscal years beginning after December 15, 2015. This statement establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple employer defined benefit pension plan that meets certain criteria in GASB Statement No. 68, *"Accounting and Financial Reporting for Pensions"*, and that is not a state or local governmental pension plan; is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers; and has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The adoption of this statement did not have a material impact on the financial statements.

The University has also implemented GASB Statement No. 79, *"Certain External Investment Pools and Pool Participants"*. This statement establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This statement also establishes accounting and financial reporting standards for state and local governments that participate in a qualifying external investment pool that measures for financial reporting purposes all of its investments at amortized cost. The requirements of this statement are effective for fiscal years beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. The adoption of this statement did not have a material impact on the financial statements.

Recent Statements Issued by the Governmental Accounting Standards Board —The GASB has also issued Statement No. 74, *"Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans"*, which is effective for fiscal years beginning after June 15, 2016. This statement establishes financial reporting standards for state and local governmental other postemployment benefit plans – defined benefit plans and defined contribution plans – that are administered through trusts or equivalent arrangements that meet certain criteria. This statement also establishes financial reporting standards for governments that hold assets accumulated for purposes of providing other postemployment benefits through defined benefit plans that are not administered through trusts or equivalent arrangements that meet certain criteria. The University has not yet determined the effect that the adoption of GASB Statement No. 74 may have on its financial statements.

The GASB has also issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is effective for fiscal years beginning after 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 University has not yet determined the effect that the adoption of GASB Statement No. 75 may have on its financial statements.

The GASB has also issued Statement No. 77, *Tax Abatement Disclosures*, which is effective for fiscal years beginning after December 15, 2015. This statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The University has not yet determined the effect that the adoption of GASB Statement No. 77 may have on its financial statements.

The GASB has also issued Statement No. 80, *"Blending Requirements for Certain Component Units"*, which is effective for fiscal years beginning after June 15, 2016. This statement amends the blending requirements for the financial presentation of component units of all state and local governments established in Statement No. 14, *"The Financial Reporting Entity"*, as amended. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *"Determining Whether Certain Organizations Are Component Units"*. The University has not yet determined the effect that the adoption of GASB Statement No. 80 may have on its financial statements.

The GASB has also issued Statement No. 81, *"Irrevocable Split-Interest Agreements"*, which is 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 not yet determined the effect that the adoption of GASB Statement No. 81 may have on its financial statements.

The GASB has also issued Statement No. 82, *"Pension Issues"*, which is effective for fiscal years beginning after June 15, 2016, except for the requirements of this statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. This statement establishes accounting and financial reporting requirements for pensions provided to employees of state or local governmental employers. This statement also establishes financial reporting requirements for pension plans administered through trusts that meet the criteria in Statement No. 67. The University has not yet determined the effect that the adoption of GASB Statement No. 82 may have on its financial statements.

The GASB has also issued Statement No. 83, *"Certain Asset Retirement Obligations"*, which is effective for fiscal years beginning after June 15, 2018. This statement establishes accounting and financial reporting for certain asset retirement obligations. The University has not yet determined the effect that the adoption of GASB Statement No. 83 may have on its financial statements

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents as of June 30, 2016 and 2015 was as follows:

	2016		
	Current	**Noncurrent**	**Total**
State Treasurer	$ 15,616,053	$ -	$ 15,616,053
Bank	643,645	-	643,645
	$ 16,259,698	$ -	$ 16,259,698

	2015		
	Current	**Noncurrent**	**Total**
State Treasurer	$ 16,662,864	$ -	$ 16,662,864
Bank	1,216,442	-	1,216,442
	$ 17,879,306	$ -	$ 17,879,306

Cash and cash equivalents with the State Treasurer included $24,100 in 2016 and $75,743 in 2015 of restricted cash for grants.

The combined carrying amount of cash in bank at June 30, 2016 and 2015 was $643,645 and $1,216,442 as compared with the combined bank balance of $707,993 and $1,210,196, 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, 2016 and 2015, the University was exposed to custodial credit risk of $152,505 and $373,183, respectively, for amounts that are uninsured and uncollateralized.

Amounts with the State Treasurer as of June 30, 2016 and 2015, 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 $776,729 in 2016 and $8,640 in 2015 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 investment pools as of June 30:

	2016		2015	
External Pool	Carrying Value (in Thousands)	S & P Rating	Carrying Value (in Thousands)	S & P Rating
WV Money Market	$ 14,497,452	AAAm	$ 16,521,587	AAAm
WV Government Money Market	$ -	AAAm	$ 146,219	AAAm
WV Short Term Bond	$ 341,872	Not Rated	$ 3,698	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:

	2016		2015	
External Pool	Carrying Amount (in thousands)	WAM (days)	Carrying Amount (in thousands)	WAM (days)
WV Money Market	$ 14,497,452	52	$ 16,521,587	52
WV Government Money Market	-	0	146,219	50

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

	2016		2015	
External Pool	Carrying Value (in thousands)	Effective Duration (days)	Carrying Value (in thousands)	Effective Duration (days)
WV Short Term Bond	$ 341,872	358	3,698	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, 2016 and 2015, are as follows:

	2016	2015
Student tuition and fees — net of allowance for doubtful accounts of $474,019 and $678,807 in 2016 and 2015, respectively	$ 495,329	$ 405,793
Grants and contracts receivable	371,084	175,536
Other	372,005	93,842
	$ 1,238,418	$ 675,171

5. CAPITAL ASSETS

Summary of capital assets transactions for the University as of June 30, 2016 and 2015, are as follows:

	2016			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 1,120,925	$ -	$ -	$ 1,120,925
Construction in progress	845,388	1,174,966	1,760,049	260,305
Total capital assets not being depreciated	1,966,313	1,174,966	1,760,049	1,381,230
Capital assets being depreciated:				
Land improvements	4,116,383	99,005	-	4,215,388
Land improvements - leased	1,825,416	-	-	1,825,416
Infrastructure	14,559,185	107,966	-	14,667,151
Buildings	169,517,417	1,484,810	-	171,002,227
Equipment	13,413,035	1,018,461	192,317	14,239,179
Library books	3,952,391	60,743	-	4,013,134
Total capital assets being depreciated	207,383,827	2,770,985	192,317	209,962,495
Less accumulated depreciation for:				
Land improvements	1,219,279	297,048	-	1,516,327
Land improvements - leased	536,869	121,694	-	658,563
Infrastructure	6,128,468	681,500	-	6,809,968
Buildings	57,758,656	4,499,798	-	62,258,454
Equipment	8,823,001	1,229,460	191,772	9,860,689
Library books	3,423,278	100,401	-	3,523,679
Total accumulated depreciation	77,889,551	6,929,901	191,772	84,627,680
Capital assets being depreciated - net	129,494,276	(4,158,916)	545	125,334,815
Total Capital Assets	$ 131,460,589	$ (2,983,950)	$ 1,760,594	$ 126,716,045

5. CAPITAL ASSETS (CONTINUED)

	2015			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 1,120,925	$ -	$ -	$ 1,120,925
Construction in progress	1,605,388	2,517,008	3,277,008	845,388
Total capital assets not being depreciated	2,726,313	2,517,008	3,277,008	1,966,313
Capital assests being depreciated:				
Land improvements	3,796,074	320,309	-	4,116,383
Land improvements - leased	1,825,416	-	-	1,825,416
Infrastructure	14,430,929	128,256	-	14,559,185
Buildings	166,675,827	2,841,590	-	169,517,417
Equipment	12,949,873	788,339	325,177	13,413,035
Library books	3,862,662	89,729		3,952,391
Total capital assets being depreciated	203,540,781	4,168,223	325,177	207,383,827
Less accumulated depreciation for:				
Land improvements	939,606	279,673	-	1,219,279
Land improvements - leased	415,175	121,694	-	536,869
Infrastructure	5,447,743	680,725	-	6,128,468
Buildings	53,237,344	4,521,312	-	57,758,656
Equipment	7,814,919	1,307,771	299,689	8,823,001
Library books	3,311,744	111,534		3,423,278
Total accumulated depreciation	71,166,531	7,022,709	299,689	77,889,551
Capital assets being depreciated - net	132,374,250	(2,854,486)	25,488	129,494,276
Total Capital Assets	$ 135,100,563	$ (337,478)	$ 3,302,496	$ 131,460,589

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, 2016, the University had no significant outstanding contractual commitments for property, plant, and equipment.

6. LEASES

Future annual lease payments on capital leases for years subsequent to June 30, 2016, are as follows:

Years Ending June 30,	Principal	Interest	Total
2017	142,462	9,055	151,517
2018	144,850	6,667	151,517
2019	147,277	4,240	151,517
2020	149,746	1,772	151,518
2021	25,200	52	25,252
Total	$609,535	$21,786	$631,321

The net book value of capital assets held under the capital lease as of June 30, 2016 and 2015, was $1,166,852 and $1,288,547, net of accumulated depreciation of $658,564 and $536,869, respectively.

7. LONG-TERM LIABILITIES

Summary of long-term obligation transactions for the University for the years ended June 30, 2016 and 2015 are as follows:

	2016				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and capital leases:					
Bonds payable	$41,910,000	$ -	$1,390,000	$40,520,000	$1,455,000
Bond premium/discount	511,552	4,008	29,635	485,925	-
Capital lease obligations	749,649	-	140,114	609,535	142,462
Total bonds and capital leases	43,171,201	4,008	1,559,749	41,615,460	1,597,462
Other long-term liabilities:					
Advances from federal sponsors	511,662	-	2,191	509,471	-
Compensated absences	1,216,010	-	6,381	1,209,629	768,650
Other postemployment benefits liability	10,231,325	592,687	-	10,824,012	-
Total other long-term liabilities	11,958,997	592,687	8,572	12,543,112	768,650
Total long-term liabilities	$55,130,198	$ 596,695	$1,568,321	$54,158,572	$2,366,112

7. LONG-TERM LIABILITIES (CONTINUED)

	2015				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and capital leases:					
Bonds payable	$43,245,000	$ -	$1,335,000	$41,910,000	$1,390,000
Bond premium/discount	538,343	4,007	30,798	511,552	-
Capital lease obligations	944,595	-	194,946	749,649	140,114
Total bonds and capital leases	44,727,938	4,007	1,560,744	43,171,201	1,530,114
Other long-term liabilities:					
Advances from federal sponsors	526,575	-	14,913	511,662	-
Compensated absences	1,187,690	28,320	-	1,216,010	789,814
Other postemployment benefits liability	9,660,135	571,190	-	10,231,325	-
Total other long-term liabilities	11,374,400	599,510	14,913	11,958,997	789,814
Total long-term liabilities	$56,102,338	$ 603,517	$1,575,657	$55,130,198	$2,319,928

8. BONDS PAYABLE

Bonds payable as of June 30, 2016 and 2015, consisted of the following:

	Interest Rate	Annual Principal Installment Due	Principal Amount Outstanding 2016	Principal Amount Outstanding 2015
Residence Facilities Revenue Bonds, due through 2035	5.00%	$605,000–1,450,000	$ 18,435,000	$ 19,010,000
Wellness Center Facilities Revenue Bonds, due through 2037	4.00%–5.0%	$470,000–1,170,000	16,250,000	16,700,000
Refunding Revenue Bonds, due through 2033	3.0% - 4.375%	$380,000-460,000	5,835,000	6,200,000
			40,520,000	41,910,000
Discount			(85,480)	(89,487)
Premium			571,405	601,039
			$ 41,005,925	$ 42,421,552

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, 2016, 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, 2016 and 2015, 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, 2016 and 2015, gross revenues when combined with other monies legally available for payment of debt service were in excess of the maximum annual 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

8. BONDS PAYABLE (CONTINUED)

2003 and 2004 series bonds with an average interest rate of 4.27%. As a result, both 2003 series bonds and 2004 series bonds are considered to be defeased and the liability for both of those bonds has been removed from statement of net position.

Summary of the annual aggregate principal and interest payments for years subsequent to June 30, 2016, are as follows:

Years Ending June 30	2005 Principal	2005 Interest	2007 Principal	2007 Interest
2017	$ 605,000	$ 921,750	$ 470,000	$ 747,800
2018	635,000	891,500	490,000	729,000
2019	665,000	859,750	515,000	704,500
2020	700,000	826,500	540,000	678,750
2021	735,000	791,500	570,000	651,750
2022-2026	4,255,000	3,368,750	3,275,000	2,823,100
2027-2031	5,435,000	2,193,000	4,090,000	2,007,244
2032-2036	5,405,000	692,000	5,130,000	977,669
2037	-	-	1,170,000	52,650
Total	$ 18,435,000	$ 10,544,750	$ 16,250,000	$ 9,372,463

Years Ending June 30	2013 Principal	2013 Interest	Total Principal	Total Interest
2017	$ 380,000	$ 197,362	$ 1,455,000	$ 1,866,912
2018	390,000	185,963	1,515,000	1,806,463
2019	400,000	174,262	1,580,000	1,738,512
2020	410,000	165,862	1,650,000	1,671,112
2021	420,000	153,563	1,725,000	1,596,813
2022-2026	1,825,000	574,863	9,355,000	6,766,713
2027-2031	1,375,000	312,481	10,900,000	4,512,725
2032-2036	635,000	42,000	11,170,000	1,711,669
2037	-	-	1,170,000	52,650
Total	$ 5,835,000	$ 1,806,356	$ 40,520,000	$ 21,723,569

9. OTHER POSTEMPLOYMENT BENEFITS

In accordance with GASB, OPEB costs are accrued based upon invoices received from PEIA based upon actuarially determined amounts. At June 30, 2016, 2015, and 2014 the noncurrent liability related to OPEB costs was $10,824,012, $10,231,325, and $9,660,135, respectively. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was $1,317,499 and $724,812, respectively, during 2016. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was $1,358,046 and $786,855, respectively, during 2015. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was $1,074,291 and $845,126, respectively, during 2014. As of and for the years ended June 30, 2016, 2015, and 2014, there were 39, 32, and 29 retirees receiving these benefits, respectively. The University does not have a current plan in place to fund the OPEB liability; however, the State has dedicated funds to be transferred into Retiree Health Benefit Trust Fund to commence at a future date.

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 as of June 30, 2016 and 2015, are as follows:

	2016	2015
Other	$ 37,820	$ 37,820

11. UNRESTRICTED COMPONENTS OF NET POSITION

The University did not have any board designated unrestricted components of net position as of June 30, 2016 or 2015.

	2016	2015
Total unrestricted net position before OPEB and net pension liability	$ 11,321,539	$ 11,895,005
Less Net pension liability	(327,328)	(449,352)
Less OPEB liability	(10,824,012)	(10,231,325)
Total unrestricted component of net position	$ 170,199	$ 1,214,328

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, 2016 and 2015, 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.

The total contributions that the University was required to contribute to the TIAA-CREF for the years ended June 30, 2016, 2015, and 2014, were $2,505,942, $2,533,604, and $2,494,766, respectively, which consisted of equal contributions from the University and covered employees in 2016, 2015, and 2014 of $1,252,971, $1,266,802, and $1,247,383, respectively.

The total contributions that the University was required to contribute to the Great West for the years ended June 30, 2016, 2015, and 2014, were $117,204, $136,838, and $149,449, respectively, which consisted of equal contributions from the University and the covered employee in 2016, 2015, and 2014 of $58,602, $68,419, and $74,724, respectively.

12. DEFINED CONTRIBUTION PLANS (CONTINUED)

The University's total payroll for the years ended June 30, 2016 and 2015 was $26,177,277 and $26,399,761, respectively, and total covered employees' salaries in TIAA-CREF and Great West were, $20,882,851 and $976,697 in 2016, and $21,113,370 and $1,140,300 in 2015, 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, 2016 and 2015:

	2016	2015
Net Pension Liability	$ 327,328	$ 449,352
Deferred Outflows of Resources	$ 53,708	$ 42,953
Deferred Inflows of Resources	$ 287,463	$ 234,570
Revenues	$ 52,512	$ 59,983
Pension Expense	$ (27,374)	$ 48,739
Contributions Made by Shepherd	$ 35,215	$ 42,953

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.

13. DEFINED BENEFIT PENSION PLAN (CONTINUED)

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.

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 $49,119 and $59,983 as of June 30, 2015 and 2014, respectively.

The University's contributions to TRS for the years ended June 30, 2016, 2015, and 2014, were approximately $35,215, $42,953, and $59,998, respectively.

Assumptions

The total pension liabilities for financial reporting purposes were determined by actuarial valuations as of June 30, 2014 and rolled forward to June 30, 2015. 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: Investments are reported at fair (market) value.
- 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.

13. DEFINED BENEFIT PENSION PLAN (CONTINUED)

- Projected salary increases: Teachers 3.75–5.25% and non-teachers 3.40–6.50%, based on age.
- Inflation rate of 2.2%.
- Discount rate of 7.50%
- Mortality rates based on RP-2000 Mortality Tables.
- Withdrawal rates: Teachers 1.2-30% and non-teachers 1.4-22.5%.
- Disability rates: 0-0.8%
- 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. 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, 2015, 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%
Real Estate	5.6%	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, 2015.

13. DEFINED BENEFIT PENSION PLAN (CONTINUED)

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, 2016 and 2015 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, 2016	$ 424,353	$ 327,328	$ 244,016
Net Pension Liability as of June 30, 2015	$ 582,742	$ 449,352	$ 334,812

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, 2015 and 2014. The total pension liability was determined by an actuarial valuation as of June 30, 2014 and rolled forward to the measurement date June 30, 2015.

The University's proportionate share of the TRS net pension liability as of June 30, 2016 and 2015 are as follows:

	2016	**2015**
Recognized University Net Pension Liability	$ 327,328	$ 449,352
University's proportionate share of net pension liability due to special funding situation	692,199	1,015,266
Total University Proportionate Share of TRS Net Pension Liability	$ 1,019,527	$ 1,464,618

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, 2015 and 2014. Employer contributions are recognized when due. At June 30, 2015 and 2014, the University's proportion was 0.009446% and 0.013024%, respectively.

13. DEFINED BENEFIT PENSION PLAN (CONTINUED)

The University recognized TRS pension expense for the years ended June 30, 2016 and 2015 as follows:

	2016	2015
University's porportionate share of TRS expense	$ (79,886)	$ (11,244)
Pension expense attributable to special funding from a non-employer contributing entity	52,512	59,983
Total TRS pension expense	$ (27,374)	$ 48,739

The University also recognized revenue of $52,513 and $59,983 for support provided by the State for years ended June 30, 2016 and 2015, respectively.

At June 30, 2016, deferred outflows of resources and deferred inflows of resources related to the TRS pension are as follows:

	2016	2015
Deferred Outflows of Resources		
Changes in Proportion and difference between employer contributions and proportinate share of contributions	$ 18,493	$ -
Net difference between projected and actual investment earnings	-	-
Contributions after the measurment date	35,215	42,953
Total Deferred Outflows of Resources	$ 53,708	$ 42,953
Deferred Inflows of Resources		
Changes in Proportion and difference between employer contributions and proportinate share of contributions	$ 252,321	$ 175,174
Net difference between projected and actual investment earnings	32,308	59,396
Differences between expected and actual experience	2,834	-
Total Deferred Inflows of Resources	$ 287,463	$ 234,570

13. DEFINED BENEFIT PENSION PLAN (CONTINUED)

The University will recognize the 2016 pension contributions of $35,215 as a reduction of the TRS net pension liability in the year ended June 30, 2017. Other 2016 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, 2017	$	(66,906)
June 30, 2018		(66,906)
June 30, 2019		(66,906)
June 30, 2020		(49,221)
June 30, 2021		(19,031)
	$	(268,970)

Payables to the pension plan

The University did not report any amounts payable for normal contributions to the TRS as of June 30, 2016 and 2015.

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, 2016 and 2015, the Foundation's net assets (including unrealized gains) totaled $25,539,153 and $26,706,976, 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, 2016 and 2015, the Foundation contributed $1,226,523 and $1,294,123, 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 approximately $229,260 for the years ended June 30, 2016 and 2015, and is included in supplies and other services (Instruction) in the accompanying statements of revenues, expenses, and changes in net position.

Future minimum payments under noncancellable operating leases are as follows at June 30:

	Leases
2017	$ 229,260
2018	229,260
2019	229,260
2020	229,260
2021	229,260
2022-2023	458,520
Total minimum lease payments	$1,604,820

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, 2016 or 2015.

16. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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.

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. SUBSEQUENT EVENTS

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 Sara Cree building. This loan is to be paid back in semi-annually payments of $75,000 for the next 5 years.

18. RESTATEMENTS

The University has implemented GASB Statement No. 68, Accounting and Financial Reporting for Pensions, and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Statements No. 68 and 71 require the University to report its share of the defined benefit pension liabilities and expense, allocated to it by the CPRB. The balance of the net pension liability and related deferred outflows of resources and deferred inflows of resources at July 1, 2014 is reported on the Statement of Revenues, Expenses, and Changes in Net Position as a restatement to the 2015 Net position – beginning of year.

	2015
Net position - beginning of year, as previously stated	$ 92,089,048
Balance of the net position liability and related deferred outflows of resources and deferred inflows of resources	(695,166)
Net position - beginning of year, restated	$ 91,393,882

19. SEGMENT INFORMATION

Condensed statements of net position as of June 30, 2016 and 2015:

	Residence Facilities Projects Revenue Bonds 2005		Wellness Center Revenue Bonds 2007		Refunding Revenue Bonds 2013	
	2016	2015	2016	2015	2016	2015
Assets:						
Current assets	9,299,008	8,940,762	1,127,070	1,186,185	2,164,653	1,635,131
Noncurrent assets	20,598,476	20,900,112	16,526,844	16,986,496	6,480,049	5,862,898
Total assets	29,897,484	29,840,874	17,653,914	18,172,681	8,644,702	7,498,029
Liabilities:						
Current liabilities	1,608,289	2,120,972	614,791	625,342	609,087	861,356
Noncurrent liabilities	18,362,284	18,995,449	15,694,520	16,160,513	5,494,120	5,876,018
Total liabilities	19,970,573	21,116,421	16,309,311	16,785,855	6,103,207	6,737,374
Net position:						
Net investment in capital assets	1,605,114	1,303,586	360,181	373,839	605,928	(378,117)
Restricted:						
Unrestricted	8,321,797	7,420,867	984,422	1,012,987	1,935,567	1,138,772
Total net position	9,926,911	8,724,453	1,344,603	1,386,826	2,541,495	760,655
Total net position and liabilities	29,897,484	29,840,874	17,653,914	18,172,681	8,644,702	7,498,029

Condensed statements of revenues, expenses, and changes in net position for the years ended June 30, 2016 and 2015:

	Residence Facilities Projects Revenue Bonds 2005		Wellness Center Revenue Bonds 2007		Refunding Revenue Bonds 2013	
	2016	2015	2016	2015	2016	2015
Operating:						
Operating revenues	$ 15,081,892	$ 16,126,414	$ 2,489,314	$ 2,574,510	$ 2,785,113	$ 1,005,954
Operating expenses	(13,008,065)	(12,894,389)	(1,767,102)	(1,811,190)	(778,318)	(429,867)
Net operating income	2,073,827	3,232,025	722,212	763,320	2,006,795	576,087
Nonoperating:						
Nonoperating revenues	88,139	12,551	3,983	1,269	6,536	73,608
Nonoperating expenses	(959,508)	(984,981)	(768,418)	(815,497)	(232,491)	(255,898)
Net nonoperating loss	(871,369)	(972,430)	(764,435)	(814,228)	(225,955)	(182,290)
Increase (decrease) in net assets	1,202,458	2,259,595	(42,223)	(50,908)	1,780,840	393,797
Net position — beginning of year	8,724,453	6,464,858	1,386,826	1,437,734	760,655	366,858
Net position — end of year	$ 9,926,911	$ 8,724,453	$ 1,344,603	$ 1,386,826	$ 2,541,495	$ 760,655

Condensed statements of cash flows for the years ended June 30, 2016 and 2015:

	Residence Facilities Projects Revenue Bonds 2005		Wellness Center Revenue Bonds 2007		Refunding Revenue Bonds 2013	
	2016	2015	2016	2015	2016	2015
Net cash provided by (used in) operating activities	$ 3,073,192	$ 3,745,022	$ 1,202,713	$ 1,317,770	$ 2,403,161	$ 703,568
Net cash used in capital and related financing	(2,882,409)	(2,960,837)	(1,158,647)	(1,328,909)	(1,857,010)	(1,571,163)
Net cash provided by (used in) \investing activities	-	-	-	-	-	-
Increase (decrease) in cash and cash equivalents	190,783	784,185	44,066	(11,139)	546,151	(867,595)
Cash and cash equivalents — beginning of year	8,517,053	7,732,868	394,820	405,959	1,353,326	2,220,921
Cash and cash equivalents — end of year	$ 8,707,836	$ 8,517,053	$ 438,886	$ 394,820	$ 1,899,477	$ 1,353,326

20. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2016 and 2015, the following represents operating expenses within both natural and functional classifications:

2016	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Fees Assessed by the Commission	Total
Instruction	$ 12,905,994	$ 2,838,306	$ 1,700,635	$ 3,053	$ -	$ -	$ -	$ 17,447,988
Research	167,675	15,708	68,684	-	-	-	-	252,067
Public service	139,215	29,061	67,229	89	-	-	-	235,594
Academic support	1,950,869	442,935	899,090	1,245	-	-	-	3,294,139
Student services	2,142,532	530,786	845,817	1,031	-	-	-	3,520,166
General institutional support	2,821,864	912,701	2,659,368	442	-	-	-	6,394,375
Operations and maintenance of plant	1,585,385	460,190	1,466,405	1,961,571	-	-	-	5,473,551
Student financial aid	-	-	-	-	2,279,367	-	-	2,279,367
Auxiliary enterprises	4,463,743	1,072,894	5,917,547	1,444,866	-	-	-	12,899,050
Depreciation	-	-	-	-	-	6,929,902	-	6,929,902
Other	-	-	-	-	-	-	276,004	276,004
Total	$ 26,177,277	$ 6,302,581	$ 13,624,775	$ 3,412,297	$ 2,279,367	$ 6,929,902	$ 276,004	$ 59,002,203

2015	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Fees Assessed by the Commission	Total
Instruction	$ 12,436,248	$ 2,861,487	$ 1,407,567	$ 3,299	$ -	$ -	$ -	$ 16,708,601
Research	110,818	11,095	41,698	-	-	-	-	163,611
Public service	152,055	32,009	92,104	113	-	-	-	276,281
Academic support	1,912,883	460,960	853,277	2,373	-	-	-	3,229,493
Student services	2,208,345	574,307	1,088,430	1,679	-	-	-	3,872,761
General institutional support	3,158,997	1,037,270	2,180,349	1,476	-	-	-	6,378,092
Operations and maintenance of plant	1,562,842	462,162	1,426,634	1,832,125	-	-	-	5,283,763
Student financial aid	-	-	-	-	2,812,150	-	-	2,812,150
Auxiliary enterprises	4,669,482	1,068,987	6,116,714	1,531,165	-	-	-	13,386,348
Depreciation	-	-	-	-	-	7,022,709		7,022,709
Other	-	-	-	-	-	-	293,248	293,248
Total	$ 26,211,670	$ 6,508,277	$ 13,206,773	$ 3,372,230	$ 2,812,150	$ 7,022,709	$ 293,248	$ 59,427,057

21. 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 Foundation is to provide financial support and other supporting services to the Shepherd University Foundation, Inc.

Basis of Accounting

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

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

Unrestricted Net Assets

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

Temporarily Restricted Net Assets

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

Note 1 Summary of Significant Accounting Policies (Continued)

Permanently Restricted Net Assets

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

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

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

Investments

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

Pledges Receivable

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

Property and Equipment

Purchased assets are recorded at cost. Donated assets retained by the Foundation are recorded at their current or appraised value at the date they are donated. Expenditures of $300 or more and having a useful life greater than one year are capitalized. Assets no longer in use are retired. Maintenance and repairs are expensed as incurred. Depreciation is calculated by the straight- line method over the estimated useful lives of the assets as follows:

	Years
Equipment	3-7
Building and improvements	40

Note 1 Summary of Significant Accounting Policies (Continued)

Loan Origination Costs

In June 2016, the Shepherd University Foundation Supporting Organization incurred loan origination costs of $589,063 associated with obtaining financing. These costs are being amortized using the straight-line method over the life of the related debt, which is 19 months and 20 days. Accumulated amortization and amortization expense for the years ending June 30, 2016 and 2015 amounted to $21,485 and $0, respectively. Future amortization expense associated with these loan origination costs will be $359,367 and $208,211 for the years ending June 30, 2017 and 2018, respectively.

Advertising

Advertising costs are expensed as incurred and amounted to $4,785 and $2,919 for the years ended June 30, 2016 and 2015, respectively.

Contributions

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

Functional Allocation of Expenses

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

Tax Exempt Status

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

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

Note 1 Summary of Significant Accounting Policies (Continued)

Use of Estimates in the Preparation of Consolidated Financial Statements

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

Concentrations of Credit Risk

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

Statement of Cash Flows

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

Risks

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

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

Reclassifications

Certain reclassifications of amounts previously reported have been made in the accompanying financial statements in order to make them conform to the classifications used for the year ended June 30, 2016.

Note 2 Pledges Receivable

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

Pledges receivable as of June 30, 2016 and 2015 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.

	2016	2015
Receivable in less than one year	$ 437,683	$ 305,376
Receivable in one to five years	2,307,500	2,090,333
Receivable over five years	1,056,000	1,706,000
Total Pledges Receivable	3,801,183	4,101,709
Less: discount to present value	(602,510)	(783,263)
Net pledges receivable	$ 3,198,673	$3,318,446

Note 3 Investments

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

Investment securities at June 30, 2016 and 2015 are composed of the following:

Description	Cost	Market
2016		
Certificates of deposit	$ 778,988	$ 778,988
Government Securities	2,181,513	2,290,350
Corporate bonds and notes	1,836,911	1,837,558
Mutual funds	14,249,625	14,832,667
Stocks	1,584,218	1,667,357
Investment Securities	$ 20,631,255	$ 21,406,920
2015		
Certificates of deposit	$ 776,632	$ 776,632
Government Securities	2,598,329	2,822,492
Corporate bonds and notes	1,805,238	1,747,479
Mutual funds	15,541,464	16,166,996
Stocks	1,252,131	1,571,971
Investment Securities	$ 21,973,794	$ 23,085,570

Note 3 Investments (Continued)

At June 30, 2016 and 2015, there was $1,379,005 and $1,194,289, 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
2016			
Land	$ 40,000	$ -	$ 40,000
Building	160,202	83,438	76,764
	$200,202	$ 83,438	$ 116,764
2015			
Land	$ 40,000	$ -	$ 40,000
Building	160,202	79,433	80,769
	$200,202	$ 79,433	$ 120,769

Depreciation expense related to investment inreal estate amounted to $4,005 for years ended June 30, 2016 and 2015.

The following is a summary of the Foundation's investments at June 30, 2016 and 2015:

Description	2016	2015
Investment securities	$ 21,406,920	$ 23,085,570
Real estate	116,764	120,769
	$ 21,523,684	$ 23,206,339

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

Note 4 Interest in Life Estate

During the year ended June 30, 2013, a donor established a life estate giving a remainder interest in a residential property to the Foundation, while retaining a life interest in the property. A life estate agreement is an arrangement whereby the donor transfers property to a charity while retaining the right to occupy and otherwise enjoy the full use of the property for the donor's choice of a term of years or the lifetime of the donor. The present commitment value of the property is based on the individual's life expectancy, which provides for a contribution value based upon the fact the donor is making a present commitment to a future charitable gift. The value of the property is based upon a third party appraisal value at the date of transfer of $447,500, discounted by the present value of the fair market rental value of the property at the time of the transfer of $1,700 per month. The present value was calculated based upon the life expectancy of the donor as calculated 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, 2016 and 2015 were $318,582 and $302,653, respectively, and are reported at the calculated present value on the Foundation's 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 statement of activities.

Note 5 Student Housing Facility Project and Construction in Progress

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

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

Construction in progress reported on the consolidated statements of financial position at June 30, 2016 and 2015 of $2,001,552 and $0, respectively, represent costs incurred related to the construction of the student housing facility project. No depreciation will be recognized on these costs until the construction is complete and the building is placed into service.

Note 6 Equipment

Equipment consists of the following:

	2016	2015
Office equipment (at cost)	$ 18,970	$ 28,115
Accumulated depreciation	(12,838)	(22,606)
Net book value	$ 6,132	$ 5,509

Depreciation expense related to equipment was $2,504 and $2,732 for the years ended June 30, 2016 and 2015, respectively.

Note 7 Custodial Liabilities

Generally accepted accounting principles establish standards for transactions in which a foundation accepts a contribution from a donor and agrees to transfer those assets, the return on investment of those assets, or both, to another entity that is specified by the donor.

Specifically, if a not-for-profit organization establishes a fund at a foundation with its own funds and specifies itself or its affiliate as the beneficiary of that fund, the foundation must account for the transfer of such assets as a liability. The liability has been established at the fair market value of the funds, which is generally equivalent to the present value of future payments expected to be made to the non-for-profit organizations.

The gross receipts and disbursements for the custodial accounts, and the interest earned and gains on investments for the custodial accounts for the years ended June 30, 2016 and 2015 are as follows:

	2016	2015
Custodial receipts	$ 195,815	$ 167,435
Custodial payments	(641,630)	(609,613)
Interest and gains on investments	8,159	9,852
Net (decrease) in custodial liabilities	$ (437,656)	$ (432,326)

Note 8 Gift Annuities

Gift annuities payable consist of the following liabilities:

	2016	2015
Daniel and Orpha Cowgill Annuity	$ 22,924	$ 25,996
James K. Wright, Jr. Annuity	15,759	19,859
Benjamin and Mary Lou Mehrling Annuity	3,136	3,462
James K. and Gladys L. Wright Annuity	10,061	11,210
Jack and Pat Egle Annuity	26,404	27,810
MEO Annuity	56,699	58,568
Total	$ 134,983	$ 146,905

The assets received are recognized at fair value when received, and the gift annuity 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. During the year ending June 30, 2015, the beneficiary of the Keith Hess Annuity passed away. In accordance with the gift annuity agreement, the residual liability at the date of the beneficiary's death was transferred into the permanently restricted net assets of the Foundation to create an endowed scholarship in the beneficiary's name.

Note 9 Loans Payable

As disclosed in Note 5, in June 2016 the Shepherd University Foundation Supporting Organization obtained interim financing for their student housing facility project through bond anticipation notes issued by the West Virginia Economic Development Authority. The Shepherd University Foundation Supporting Organization borrowed $22,035,000 under Series 2016A bond anticipation notes with an interest rate of 1.20% and $350,000 of Series 2016B taxable bond anticipation notes with an interest rate of 2.45%. The loans mature on February 1, 2018 and require semi-annual interest only payments on August 1 and February 1 of each loan year. On February 1, 2018, all outstanding interest and principal is required to be repaid. The loans are secured by a leasehold deed of trust on the student housing facility project. The outstanding balance of loans payable at June 30, 2016 and 2015 was $22,385,000 and $0, respectively. Total interest capitalized and accrued amounted to $15,619 and $0 for the years ended June 30, 2016 and 2015, respectively. The carrying value of the leasehold improvement was $2,001,552 at June 30, 2016.

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

Note 10 Employee Pension Plan

The Foundation participates in the TIAA - CREF retirement plan. The Foundation contributes to the plan based on a dollar for dollar match of the contributions of full time employees up to 6%. The cost recognized during the years ended June 30, 2016 and 2015 was $10,002 and $9,501, respectively.

Note 11 Conditional Promises to Give

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

Note 12 Related Party

The Foundation is a component unit of Shepherd University (University). The Foundation utilizes space owned by the University but does not pay rent. In-kind revenue and expense of $12,600 has been recorded for the use of this space for the years ended June 30, 2016 and 2015, respectively. As disclosed in Note 5, the Shepherd University Foundation Supporting Organization has entered into a ground lease agreement and management agreement with the University as part of the student housing facilities project.

Note 13 Fair Value Measurements

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

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

Note 13 Fair Value Measurements (Continued)

- 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 includes 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, 2016 and 2015 are as follows:

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

Note 13 Fair Value Measurements (Continued)

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2015				
Pledges Receivable	$ 3,318,446	$ -	$ -	$ 3,318,446
Government Securities				
US Treasuries	2,038,962	2,038,962	-	-
Agency Securities	461,591	-	461,591	-
Municipal Bonds	73,112	-	73,112	-
Mortgage Pools	248,827	-	248,827	-
Corporate Bonds	1,747,479	-	1,747,479	-
Mutual Funds				
US Large Cap	2,222,931	2,222,931	-	-
US Small and Mid-Cap	1,491,201	1,491,201	-	-
International Equity	2,447,896	2,447,896	-	-
International Fixed Income	1,108,706	1,108,706	-	-
REIT's	725,901	725,901	-	-
Commodities	1,394,207	1,394,207	-	-
Global Equity	1,391,725	1,391,725	-	-
Hedged Equity	1,065,139	1,065,139	-	-
Master Limited Partnerships	909,483	909,483	-	-
Diversified Alternatives	2,369,744	1,483,038	-	886,706
Managed Futures	1,040,063	1,040,063	-	-
Stocks				
US Small and Mid-Cap	781,021	781,021	-	-
International Equity	790,950	790,950	-	-
	$ 25,627,384	$ 18,891,223	$ 2,531,009	$ 4,205,152

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

Note 13 Fair Value Measurements (Continued)

Total realized gain (loss) for the investments noted above that is included in the change in net assets at June 30, 2016 and 2015 were $(1,088,208) and $503,606, respectively. The unrealized gain (loss) for the investments noted above included in the change in net assets at June 30, 2016 and 2015 was $(242,128) and $(1,890,359), respectively.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) consist of pledges receivable and funds invested in SkyBridge Multi-Advisor Series G (SkyBridge Fund) and Ironwood Institutional Multi-Strategy Fund, LLC (Ironwood Fund), which are speculative fund of funds. The changes in Level 3 assets are as follows for the years ended June 30, 2016 and 2015:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Pledges Receivable	**SkyBridge Fund**	**Ironwood Fund**	**Total**
Fair Value as of July 1, 2015	$ 3,318,446	$ -	$ 886,706	$ 4,205,152
Pledges written off	(3,000)	-	-	(3,000)
Payments received	(297,526)	-	-	(297,526)
Change in valuation	180,753	-	-	180,753
Purchase of funds	-	408,000	22,774	430,774
Unrealized (loss)	-	(40,861)	(49,390)	(90,251)
Fair Value as of June 30, 2016	$ 3,198,673	$ 367,139	$ 860,090	$ 4,425,902
Fair Value as of July 1, 2014	$ 3,324,650	$ -	$ 509,628	$ 3,834,278
New pledges	25,999	-	-	25,999
Payments received	(216,585)	-	-	(216,585)
Change in valuation	184,382	-	-	184,382
Purchase of funds	-	-	373,926	373,926
Unrealized gain	-	-	3,152	3,152
Fair Value as of June 30, 2015	$ 3,318,446	$ -	$ 886,706	$ 4,205,152

The amount of total gains (losses) included in the changes in net assets related to Level 3 assets for the years ending June 30, 2016 and 2015 was $(90,251) and $3,152, respectively.

Note 14 Endowments

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

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

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

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

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

Endowment net assets consisted of donor permanently restricted endowment funds of $25,232,749 and $24,537,466 as of June 30, 2016 and 2015, respectively. The investment income derived from the endowment funds is primarily restricted to providing scholarships for students.

Note 14 Endowments (Continued)

The changes in endowment net assets for the years ended June 30, 2016 and 2015 were as follows:

Endowment Net Assets at July 1, 2014	$	24,137,252
Investment income		25,032
Contributions		354,358
Transfers		20,824
Endownment Net Assets at June 30, 2015	$	24,537,466
Investment income		25,748
Contributions		693,774
Transfers		(24,239)
Endownment Nets Assets at June 30, 2016	$	25,232,749

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, 2016 and 2015.

Note 15 Unrestricted Net Asset Deficit

The Foundation records all realized and unrealized gains and losses to unrestricted net assets as they are incurred. The unrestricted net asset deficit of the Foundation is the result of cumulative unrealized and realized losses not being allocated as a reduction to temporarily restricted net assets as well scholarship disbursements from funds in excess of the actual unrealized and realized investment earnings of prior years. In order to reduce the deficit and generate positive unrestricted net assets, the Foundation will need to generate gains on their investments for consecutive years, reduce the level of annual fund disbursements, or generate revenues from another outside source. The balance of the unrestricted net asset deficit was $(6,772,981) and $(4,567,872) for the years ended June 30, 2016 and 2015, respectively.

Note 16 Subsequent Events

The Foundation has evaluated events and transactions subsequent to June 30, 2016 through August 29, 2016, 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, 2016 and through August 29, 2016, that require recognition or disclosure in the financial statements.

SHEPHERD UNIVERSITY

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULES OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND CONTRIBUTIONS

Schedule of Proportionate Share of TRS Net Pension Liability

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%

Schedule of Employer Contributions

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%

Notes to Required Supplementary Information

For the Year Ended June 30, 2016

There are no factors that affect trends in the amounts reported, such as change of benefits terms or assumptions. With only one year reported in the required supplementary information, there is no additional information to include in notes. Information, if necessary, can be obtained from the CPRB Comprehensive Annual Financial Report.

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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, 2016, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated February 7, 2017. 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 University's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings at 2016-001 that we consider to be a significant deficiency.

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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.*

Shepherd University's Response to Finding

The University's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The University's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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
February 7, 2017

Finding 2016-01:

Accounts Receivable

Criteria: The University should be able to reconcile the accounts receivable subsidiary ledger to the general ledger and identify the cause of any reconciling differences.

Condition: As noted in the 2015 audit, the University continues to improve upon their reconciliation process with accounts receivable from the prior year, but still is unable to reconcile and identify the cause of all reconciling differences

Reconciliation:
The reconciliation of the accounts receivable sub-ledger to the general ledger identified differences which have not been resolved. To ensure that the University is reporting accurate financial data and amounts due to them, all reconciling items should be properly accounted for between the general ledger and sub-ledger. Management has established procedures to reconcile the sub-ledger to the general ledger, but they have been unable to reconcile the two systems nor determine the causes of the variances.

Cause: Due to complications from the Chart of Accounts conversion, the University had issues reconciling and identifying reconciling differences. It was noted that there is a control in place to reconcile but the control is not effective at this time as unidentifiable reconciling items still exist. The University continues to improve the control process and is working to identify and reduce reconciling items.

Effect: Failure to properly reconcile the accounts receivable to the sub-ledger may result in the misstatement of accounts receivable.

Recommendation: The University should review current policies and procedures and make changes where necessary to ensure all reconciling items between the general ledger and sub-ledger are accounted for properly.

Management Response: Management agrees with this finding.

The recommendations from the Ellucian consult have been implemented. We have changed the set-up and processing of PELL, Scholarships, Waivers and Third Party Payments as well as the corrections needed from the Chart of Accounts conversation.

In addition to staff having a better understanding of the accounts receivable reconciliation process and report analysis, we have had several key hires in the past year. These are seasoned professionals that have a good understanding of the account reconciliation process. They bring a fresh set of eyes to the issue and have already made great strides in getting it resolved.

Information Technology continues to work closely with Finance as we implement these changes.