Shepherd University

Financial Statements as of and for the Years Ended June 30, 2014 and 2013, and Independent Auditors' Reports

SHEPHERD UNIVERSITY

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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 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 2014 data compared to the financial statements presented for fiscal year 2013. 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 is required supplemental information.

Statement of Net Position

The Statement of Net Position presents the assets, liabilities, and net position of the University as of June 30, 2014, and 2013. The Statement of Net Position presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net position (assets minus liabilities). 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 their availability for expenditure by the University.

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. 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 assets. Unrestricted assets are available for any lawful purpose of the institution.

Condensed Schedules of Net Position

(In thousands)

	June 30		
	2014	2013	2012
Assets:			
Cash	$ 16,213	$ 16,680	$ 20,846
Other Current Assets	1,599	1,246	2,245
Noncurrent Assets	135,387	137,869	125,169
Total Assets	153,199	155,795	148,260
Liabilities:			
Current Liabilities	7,300	9,250	10,581
Noncurrent Liabilities	53,810	54,584	55,588
Total Liabilities	61,110	63,834	66,169
Net Position:			
Net Invesment in Capital Assets	90,372	91,864	77,701
Restricted - Expendable	199	577	568
Unrestricted	1,518	(480)	3,822
Total Net Position	$ 92,089	$ 91,961	$ 82,091

Assets

Current Assets, including Cash, remained relatively stable at $17.8 million. However, within current assets, cash decreased by approximately $467,000 and net Accounts Receivable increased approximately $328,000. The decrease in cash is the net result of the utilization of Auxiliary cash to fund the soccer complex improvement and the Route 480 Underpass project. Net accounts receivable increase is a reflection of a slower reimbursement of federal financial aid than in the previous year.

The majority of non-current assets are comprised of capital assets. These assets are reported net of accumulated depreciation. There was a significant increase in fiscal year 2013 with the completion of the Center for Contemporary Arts II and the Route 480 Underpass. From FY13 to FY14 non-current assets decreased $2.48 million. The primary factors related to this decrease includes an increase in accumulated depreciation of $800,000 and a decrease in Investments of $400,000 that was used to pay-off 2003 revenue bonds during the refinancing of both the 2003 and 2004 revenue bonds. Also reflected in this decrease is the net change in construction in progress as a result of new and completed capital projects.

The net result of fiscal year 2014 activities resulted in a $2.6 million decrease in Total Assets.

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 from FY13 to FY14 in the amount of $2.72 million.

Significant changes include:

- A decrease in Accounts Payable of $2.51 million due to the fact that there were less capital projects being completed in FY14 compared to FY13.
- An increase in Unearned Revenue of approximately $429,000 which is related to more student tuition payments received for fall 2014 and late summer 2014 in FY14 than in FY13.
- An increase in Capital Lease Obligations (current and non-current) of $804,000 as a result of a lease-purchase agreement for the soccer field improvements.
- A decrease in Compensated Absences of $227,000 as a result of a re-evaluation and update of leave management records as well as adjustments related to employee vacancies and retirements.
- An increase in the OPEB liability of $229,000. Although this liability increased year over year, it is doing so at a reduced rate due to changes at the State including the establishment of the West Virginia Retirees Health Benefit Trust Fund which will be used to eliminate the liability over time.
- A decrease in Bonds Payable of $1.3 million is a direct result of the refinancing of the 2003 and 2004 revenue bonds.

Net Position

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. 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 is 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.

Total Net Position increased by $127,000 during the year. During the year, Net Investment in Capital Assets – net of related debt decreased approximately $1.49 million. This reflects an increase in depreciation as a result of the addition of the University's Center for Contemporary Arts Phase II and Route 480 Underpass projects in the prior year. Restricted – expendable was reduced by $378,000 due to bond reserve funds being used to pay off debt when the University refinances 2003 and 2004 revenue bonds. Unrestricted Net Position increased significantly by $2.0 million as a result of being reimbursed from the State for the Route 480 Underpass project for $1.1 million and the net profit of Auxiliary services of $.9 million.

Statement of Revenues, Expenses, and Changes in Net Position

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

	FY 2014	FY 2013	FY 2012
Operating Revenues	$ 43,863	$ 42,821	$ 41,731
Operating Expenses	59,339	58,609	59,959
Operating Loss	(15,476)	(15,788)	(18,228)
Nonoperating Revenues - Net	14,512	15,555	15,772
Loss before Other Revenues, Expenses, Gains or Losses	(964)	(233)	(2,456)
Capital and Bond Proceeds from Commission	-	6,112	4,679
Capital and Bond Proceeds from State	1,092	2,027	394
Private Capital Grants and Gifts	-	1,964	162
Increase in Net Position	128	9,870	2,779
Net Position - Beginning of Year	91,961	82,091	79,312
Net Position - End of Year	$ 92,089	$ 91,961	$ 82,091

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 the year increased by just over $1 million or 2.43 percent.

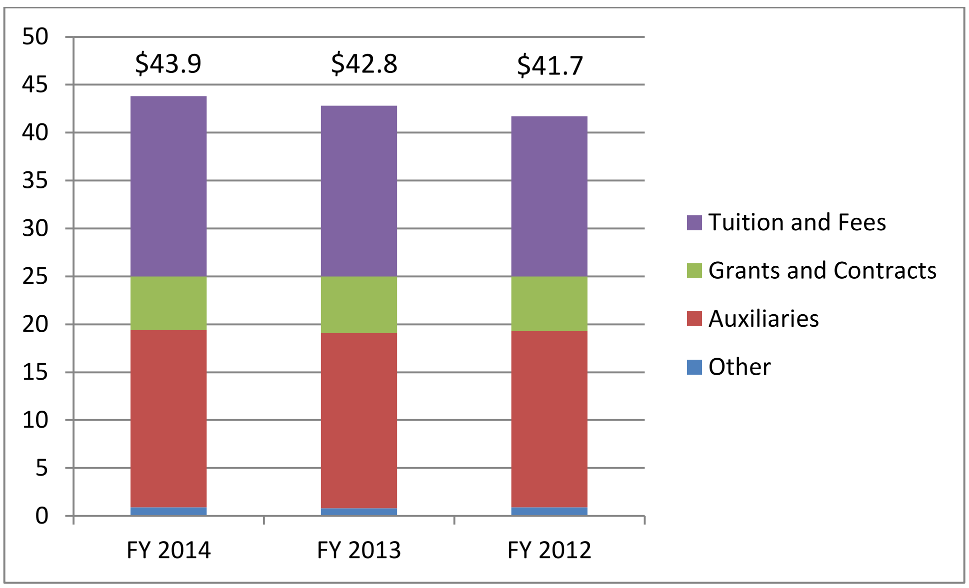
During fiscal year 2014, student tuition and fees increased approximately $1.03 million or 5.8 percent due mainly to an increase in part-time hours taken, a 7.06 percent in-state tuition increase, and a 4.58 percent out-of-state tuition increase. Overall, Student tuition and fees as a percentage of Total operating revenues increased from 42 to 43 percent.

Grants and contracts comprise approximately 13 percent of the Operating revenues and total $5.59 million in FY14. This is almost a $.3 million decrease, which is a result of two federal grants expiring in FY13 and less State grant money received for student scholarships.

Auxiliary enterprise revenue includes resources generated by the operation of the bookstore, wellness center, dining services and residence halls, experienced an increase of $192,000 which indicates the operations were able to sustain the drop in enrollment during the year and still manage to generate an equivalent revenue stream to FY13.

Operating Revenues –FY 2014-2012

(In millions)



Operating Expenses:

Salaries and benefits represent 55 percent of the total FY14 Operating expenses. This is a 1 percent decrease from FY13. Within this category of expenses, the total cost of benefits dropped by 7 percent or approximately $416,000. Contributing factors include a reduction in the annual cost billed to employers for other post-employment benefits (OPEB). This is a result of the following changes:

- Eligible participants hired after June 30, 2010 will be required to fully fund premium contributions upon retirement.
- State government will contribute $30 million annually to the West Virginia Retirees Health Benefit Trust Fund (RHBT) starting in 2016 and continuing through 2035. RHBT assets will be used to eliminate the OPEB liability staring in 2017 and employers will be issued annual credits to eliminate amounts previously billed.

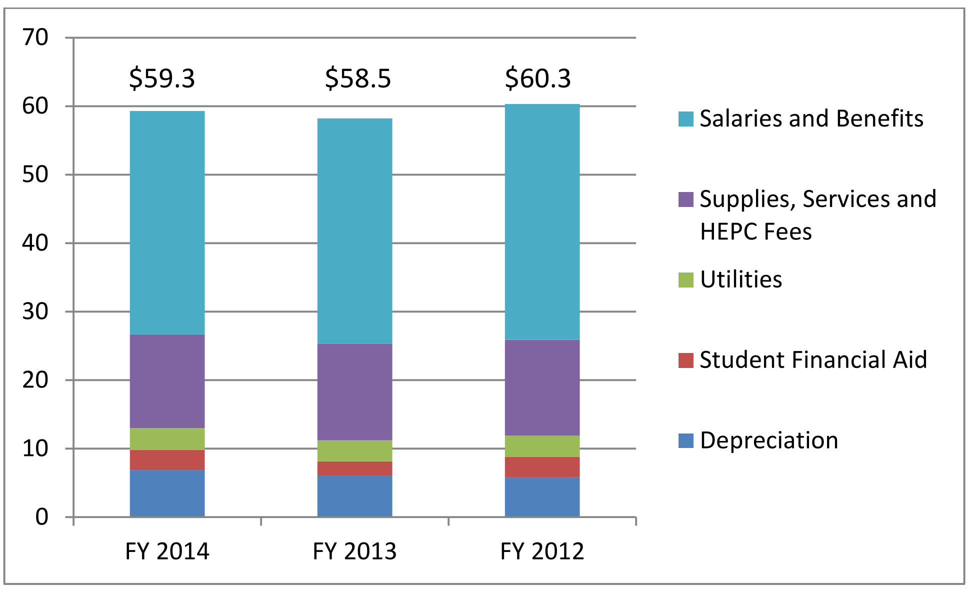
During the year, support to students in the form of scholarships and fellowships increased significantly. Total Student financial aid expenses were $2.9 million which represents a 23 percent increase over prior year. This represents increases associated with tuition waivers and grant funded scholarships.

As previously mentioned and as a result of investments in capital projects in prior years, depreciation expenses increased by approximately 14 percent to just under $ 7 million.

Overall, FY14 Operating expenses increased 1.25 percent or approximately $ .7 million.

Operating Expenses – FY 2014-2012

(In millions)



Non-operating Revenues (Expenses)

There are two material changes in non-operating revenues (expenses). The State appropriations saw just under 10% decrease from FY13 to $10.11 million. Additionally, gifts increased $227,000 from prior year due to recognition of Foundation support associated with operating activities. Non-operating revenue also reflects a decrease in Pell funding received by Shepherd students of approximately $95,000.

The net result of operating and non-operating revenues and expenses was a loss of approximately $965,000. This loss was offset by other revenues, expenses and gains or losses which include Capital and Bond proceeds from the State. During FY14, Shepherd University received approximately $1.1 million from the State for reimbursement on the Route 480 Underpass project. These State proceeds are significantly less than prior year due to the Shepherd receiving the final proceeds for the Center for Contemporary Arts Phase II project in FY13.

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 of payments to and on behalf of employees of $32.65 million and payments to suppliers of approximately $14 million. Net cash used for operating activities decreased slightly by approximately $1.1 million from FY13 to FY14 primarily due to the increased revenue realized from student tuition and fees.

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 mainly contributed to the reduction in State appropriation funds from FY13 to FY14.

Capital financing activities represent funds that were used to purchase or add value to capital assets. There was a substantial decrease from FY13 to FY14 as the Center for Contemporary Arts Phase II and the Route 480 Underpass project were completed in FY13.

Cash flows from investing activities represent income earned on cash invested in our bond reserve fund related to the 2003 revenue bonds. During FY14, we refinanced those bonds as well as the 2004 revenue bonds and therefore, liquidated the reserve funds of approximately $400,000 thus increasing our cash flow from investing activities.

Condensed Consolidated Schedules of Cash Flows

(In thousands)

	FY 2014	FY 2013	FY 2012
Net cash (used in) provided by:			
Operating activities	$ (8,837)	$ (9,903)	$ (8,334)
Noncapital financing activities	16,391	17,728	18,092
Capital and related financing activities	(8,442)	(12,047)	(7,840)
Investing activites	421	56	41
Increase (decrease) in Cash	(467)	(4,166)	1,959
Cash and cash equivalents - beginning of year	16,680	20,846	18,887
Cash and cash equivalents - end of year	$ 16,213	$ 16,680	$ 20,846

Economic Outlook

Current and foreseeable economic conditions will likely continue to place a pressure on Shepherd's financial capabilities for the next few years. Recently implemented federal financial aid requirements increased the standards for student eligibility. As such, the number of students eligible to continue receiving financial aid did decrease and affect enrollment beginning in fiscal year 2014. This is expected to be a continuing challenge. Shepherd University's state appropriation was reduced by almost 10 percent for fiscal year 2014. Although Shepherd's reliance upon state funding is among the lowest in the state, this reduction will cause the University to continue to examine resources and reallocate/reinvest as necessary.

The University is taking several steps in an effort to counter these challenges and to better prepare for the future. A new Martinsburg Center was opened during summer 2013. The Center focuses on adult learners and will attract additional students from new markets to increase enrollments and enhance revenue. Enrollments during FY14 were strong and efforts are continuing to retain and recruit students to these programs. By 2021, the Center is expected to serve an additional 500 students. Additionally the Martinsburg Center has completed a new Strategic Alliance Partnership which is available to local businesses. The partnership will enable students to take courses in Martinsburg at a reduced rate. These types of marketing and recruitment efforts will continue.

Feasibility studies and research will be conducted and Shepherd will develop and offer new market-driven programs. For example, in fiscal year 2015 a Bachelor of Arts in early education and two new emphasis areas for the Regents Bachelor of Arts degree program will be offered.

As evidenced by the substantial increase in FY14 pledges, the Shepherd University Advancement Office in partnership with the Shepherd University Foundation will continue 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.

An annual assessment of the strategic plan will be conducted to ensure that the University is "navigating with purpose". The plan will be an active document and will be updated to provide vision and direction to the campus. Strategic Priority 10 calls for a target of $1 million dollars annually in grant awards to support initiatives. During fiscal year 2014, Shepherd reached a record number of grant proposal submissions and will continue this effort into the future to supplement the operating budget.

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, 2014 AND 2013

ASSETS AND DEFERRED OUTFLOWS	2014	2013
CURRENT ASSETS:		
Cash and cash equivalents	$ 16,213,238	$ 16,680,294
Accounts receivable — net	998,441	670,653
Prepaid expense	68,264	67,017
Loans to students — current portion	100,091	100,091
Inventories	431,837	408,251
Total current assets	17,811,871	17,926,306
NONCURRENT ASSETS:		
Cash and cash equivalents	10	9,880
Investments	2	397,835
Loans to students — net of allowance of $401,387 and $362,637 in 2014 and 2013, respectively	286,828	326,110
Capital assets — net	135,100,563	137,135,144
Total noncurrent assets	135,387,403	137,868,969
TOTAL ASSETS	153,199,274	155,795,275
TOTAL DEFERRED OUTFLOW OF RESOURCES:	-	-
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	$ 153,199,274	$ 155,795,275

(Continued)

SHEPHERD UNIVERSITY

STATEMENTS OF NET POSITION
AS OF JUNE 30, 2014 AND 2013

LIABILITIES, DEFERRED INFLOWS AND NET POSITION	2014	2013
CURRENT LIABILITIES:		
Accounts payable	$ 1,476,659	$ 3,985,006
Accrued liabilities	2,385,181	2,379,168
Compensated absences — current portion	762,028	795,001
Unearned revenues	995,981	567,283
Deposits held in custody for others	150,067	194,282
Bonds payable — current portion	1,335,000	1,245,000
Capital lease obligations — current portion	194,946	83,739
Total current liabilities	7,299,862	9,249,479
NONCURRENT LIABILITIES:		
Advances from federal sponsors	526,575	559,248
Compensated absences	425,662	652,220
Other postemployment benefits liability	9,660,135	9,430,969
Bonds payable	42,448,343	43,884,542
Capital lease obligations	749,649	57,141
Total noncurrent liabilities	53,810,364	54,584,120
Total liabilities	61,110,226	63,833,599
DEFERRED INFLOW OF RESOURCES:	-	-
NET POSITION:		
Net Investment in capital assets	90,372,625	91,864,722
Restricted for — expendable:		
Loans	98,177	103,635
Debt service	-	387,021
Other restricted	100,358	86,720
Total expendable	198,535	577,376
Unrestricted	1,517,888	(480,422)
Total net position	92,089,048	91,961,676
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION	$ 153,199,274	$ 155,795,275

See notes to financial statements. (Concluded)

SHEPHERD UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
OPERATING REVENUES:		
Student tuition and fees — net of scholarship allowance of $10,914,341 and $10,388,862 in 2014 and 2013, respectively	$ 18,855,320	$ 17,822,290
Contracts and grants:		
Federal	923,554	1,054,868
State	4,585,850	4,743,946
Private	78,752	84,413
Interest on student loans receivable	8,138	14,366
Sales and services of educational activities	41,545	41,764
Auxiliary enterprise revenue — net of scholarship allowance of $463,255 and $504,072 in 2014 and 2013, respectively	18,493,472	18,301,023
Other operating revenues	876,660	758,448
Total operating revenues	43,863,291	42,821,118
OPERATING EXPENSES:		
Salaries and wages	26,828,924	26,729,917
Benefits	5,776,277	6,192,755
Supplies and other services	13,431,445	13,827,263
Utilities	3,213,654	3,146,187
Student financial aid — scholarships and fellowships	2,884,914	2,341,116
Depreciation	6,898,337	6,061,969
Fees assessed by the Commission for operations	306,012	309,521
Total operating expenses	59,339,563	58,608,728
OPERATING LOSS	(15,476,272)	(15,787,610)

(Continued)

SHEPHERD UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
NONOPERATING REVENUES (EXPENSES):		
State appropriations	$ 10,112,854	$ 11,228,474
Federal Pell grants	5,583,097	5,678,573
Investment income	23,588	50,556
Interest expense	(2,129,539)	(2,115,135)
Fees assessed by the Commission for debt service	(37,820)	(37,820)
Gifts	1,022,050	795,052
Loss on disposal of equipment	(62,393)	(46,616)
Other	(126)	1,673
Net nonoperating revenues	14,511,711	15,554,757
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	(964,561)	(232,852)
CAPITAL AND BOND PROCEEDS FROM COMMISSION	-	6,112,250
CAPITAL AND BOND PROCEEDS FROM THE STATE	1,091,933	2,027,162
PRIVATE CAPITAL GRANTS	-	1,964,329
INCREASE IN NET POSITION	127,372	9,870,889
NET POSITION — Beginning of year	91,961,676	82,090,787
NET POSITION — End of year	$ 92,089,048	$ 91,961,676

See notes to financial statements.

(Concluded)

SHEPHERD UNIVERSITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	$ 19,342,384	$ 17,606,690
Contracts and grants	5,531,885	5,005,392
Payments to and on behalf of employees	(32,646,387)	(32,208,329)
Payments to suppliers	(13,944,787)	(13,632,515)
Payments to utilities	(3,343,941)	(3,208,800)
Payments for scholarships and fellowships	(2,884,914)	(2,341,116)
Loans issued to students	(79,225)	(61,554)
Collection of loans to students	126,645	150,435
Sales and service of educational activities	41,545	41,764
Auxiliary enterprise charges	18,449,257	18,295,969
Fees assessed by the Commission	(306,012)	(309,521)
Other receipts — net	876,660	758,448
Net cash used in operating activities	(8,836,890)	(9,903,137)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	10,112,854	11,228,474
Federal Pell grants	5,583,097	5,678,573
Gifts	1,021,924	795,052
Federal student loan program — direct lending receipts	20,736,010	21,405,319
Federal student loan program — direct lending payments	(21,063,071)	(21,378,739)
Net cash provided by noncapital financing activities	16,390,814	17,728,679
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Private capital grants received	-	1,964,329
Capital and bond proceeds from the Commission	-	6,112,250
Capital and bond proceeds from the State	1,091,933	2,027,162
Interest paid on capital debt and leases	(2,129,539)	(2,132,569)
Purchases of capital assets	(6,790,560)	(18,615,532)
Bond and lease proceeds	7,730,000	-
Principal paid on capital debt and leases	(8,316,285)	(1,356,429)
Withdrawals from (deposits to) noncurrent cash and cash equivalents	9,870	(8,771)
Fees assessed by the Commission	(37,820)	(37,820)
Net cash used in capital financing activities	(8,442,401)	(12,047,380)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investment	397,833	4,224
Interest on investments	23,588	52,230
Net cash provided by investing activities	421,421	56,454
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(467,056)	(4,165,384)
CASH AND CASH EQUIVALENTS — Beginning of year	16,680,294	20,845,678
CASH AND CASH EQUIVALENTS — End of year	$ 16,213,238	$ 16,680,294

(Continued)

SHEPHERD UNIVERSITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (15,476,272)	$ (15,787,610)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	6,898,337	6,061,969
Net accretion of premiums/discounts on bonds payable	43,801	(17,434)
Effect of changes in operating Assets and Liabilities:		
Accounts receivables — net	(728)	(57,292)
Prepaid expense	(1,247)	(67,017)
Loans to students — net	39,282	74,515
Due from the Commission	-	780,614
Due from other State agencies	-	136,079
Inventories	(23,586)	200,014
Accounts payable	(643,936)	124,264
Accrued liabilities	6,014	161,570
Compensated absences	(259,531)	348,786
Other postemployment benefits liability	229,166	203,987
Due to other State agencies	-	(5,683)
Deferred revenue	428,698	(2,002,858)
Deposits held in custody for others	(44,215)	(39,910)
Advances from federal sponsors	(32,673)	(17,131)
NET CASH USED IN OPERATING ACTIVITIES	$ (8,836,890)	$ (9,903,137)
NONCASH TRANSACTIONS		
Property additions in accounts payable	$ (772,125)	$ (282,687)
Property additions acquired under capital lease obligation	$ (1,000,000)	$ -

See notes to financial statements.

(Concluded)

SHEPHERD UNIVERSITY FOUNDATION, INCORPORATED
A COMPONENT UNIT OF SHEPHERD UNIVERSITY
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2014 AND 2013

	2014	2013
ASSETS		
Cash and cash equivalents	$ 1,732,027	$ 1,920,569
Pledges receivable (net of present value adjustment)	3,324,650	189,563
Other receivables	32,843	-
Accrued interest receivable	33,564	43,101
Prepaid expenses	1,582	3,319
Investments	25,302,022	23,754,127
Interest in life estate	302,653	287,234
Equipment, net	6,971	3,136
Total Assets	$ 30,736,312	$ 26,201,049
LIABILITIES		
Accounts payable	$ 1,644	$ 555
Accrued payroll	7,412	5,975
Custodial liabilities	2,444,417	2,772,324
Gift annuities payable	168,986	168,279
Total Liabilities	$ 2,622,459	$ 2,947,133
NET ASSETS		
Unrestricted	$ (2,388,213)	$ (3,016,065)
Temporarily restricted	6,364,814	3,001,964
Permanently restricted	24,137,252	23,268,017
Total Net Assets	$ 28,113,853	$ 23,253,916
Total Liabilities and Net Assets	$ 30,736,312	$ 26,201,049

See notes to financial statements.

SHEPHERD UNIVERSITY

SHEPHERD UNIVERSITY FOUNDATION, INCORPORATED
A COMPONENT UNIT OF SHEPHERD UNIVERSITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT				
Cash contributions	$ -	$ 4,040,792	802,508	$ 4,843,300
Stock contributions	-	4,389	18,879	23,268
Other non-cash contributions	-	11,376	15,420	26,796
Other revenue	23,537	25,073	-	48,610
Interest and dividends	-	481,337	20,159	501,496
Net realized and unrealized gains on investments	1,415,750	87,276	-	1,503,026
(Loss) on sale of investment real estate	(64,843)	-	-	(64,843)
Transfers	(71,678)	28,130	43,548	-
Net assets released from restrictions	1,315,523	(1,315,523)	-	-
Total Revenue and Other Support	2,618,289	3,362,850	900,514	6,881,653
EXPENSES				
Program services:				
Scholarships and awards	1,230,237	-	-	1,230,237
College support	85,286	-	-	85,286
General and administrative:				
Salaries	312,137	-	-	312,137
Investment management fees	158,993	-	-	158,993
Real estate investment expenses	50	-	-	50
Printing and reproduction costs	41,108	-	-	41,108
Pledges written off	4,333	-	-	4,333
Payroll taxes and benefits	52,032	-	-	52,032
Depreciation	5,170	-	-	5,170
Administrative expense	1,559	-	-	1,559
Rent	13,138	-	-	13,138
Office supplies and postage	7,538	-	-	7,538
Insurance	5,571	-	-	5,571
Changes in gift annuities	12,025	-	-	12,025
Professional fees	29,769	-	-	29,769
Development	27,624	-	-	27,624
Telephone	2,450	-	-	2,450
Technology	1,225	-	-	1,225
Miscellaneous	192	-	-	192
Total Expenses	1,990,437	-	-	1,990,437
Transfer to Unrelated Foundation	-	-	(31,279)	(31,279)
INCREASE IN NET ASSETS	627,852	3,362,850	869,235	4,859,937
NET ASSETS - Beginning of year	(3,016,065)	3,001,964	23,268,017	23,253,916
NET ASSETS - End of year	$ (2,388,213)	$ 6,364,814	$ 24,137,252	$ 28,113,853

See notes to combined financial statements.

SHEPHERD UNIVERSITY

SHEPHERD UNIVERSITY FOUNDATION, INCORPORATED
A COMPONENT UNIT OF SHEPHERD UNIVERSITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND OTHER SUPPORT				
Cash contributions	$ -	$ 802,335	869,799	$ 1,672,134
Stock contributions	-	2,508	-	2,508
Other non-cash contributions	-	9,973	287,234	297,207
Other revenue	23,383	20,224	-	43,607
Interest and dividends	-	517,956	15,216	533,172
Net realized and unrealized gains on investments	602,556	16,037	-	618,593
Transfers	34,343	(58,131)	23,788	-
Net assets released from restrictions	1,313,537	(1,313,537)	-	-
Total Revenue and Other Support	1,973,819	(2,635)	1,196,037	3,167,221
EXPENSES				
Program services:				
Scholarships and awards	1,226,073	-	-	1,226,073
College support	87,464	-	-	87,464
General and administrative:				
Salaries	296,897	-	-	296,897
Investment management fees	142,031	-	-	142,031
Real estate investment expenses	19,858	-	-	19,858
Printing and reproduction costs	38,584	-	-	38,584
Payroll taxes and benefits	48,444	-	-	48,444
Depreciation	5,323	-	-	5,323
Administrative expense	1,771	-	-	1,771
Rent	13,100	-	-	13,100
Office supplies and postage	6,211	-	-	6,211
Insurance	5,106	-	-	5,106
Changes in gift annuities	12,286	-	-	12,286
Professional fees	23,264	-	-	23,264
Staff development	3,122	-	-	3,122
Development	23,844	-	-	23,844
Telephone	2,343	-	-	2,343
Technology	297	-	-	297
Miscellaneous	438	-	-	438
Total Expenses	1,956,456.00	-	-	1,956,456.00
INCREASE (DECREASE) IN NET ASSETS	17,363	(2,635)	1,196,037	1,210,765
NET ASSETS - Beginning of year	(3,033,428)	3,004,599	22,071,980	22,043,151
NET ASSETS - End of year	$ (3,016,065)	$ 3,001,964	$ 23,268,017	$ 23,253,916

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 combined 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, net position, revenues, expenses, changes in net position, and cash flows.

Reporting Entity — The University is an operating unit of the West Virginia Higher Education Fund and represents separate funds of the State of West Virginia (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 combined 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 combined 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 the Foundation are discretely presented here with the University’s financial statements for the fiscal years ended June 30, 2014and 2013, 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 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 18).

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, 2014 or 2013.

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 combined statements of net position, the University considers all highly liquid investments with an original maturity of three months or less 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 combined 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 combined statements of net position.

Investments — Investments are recorded at fair value. The University's investments were on deposit with WesBanco Bank, Inc. (the "Trustee Bank"). These funds primarily represented unexpended proceeds of bond issuances and were restricted to expenditures for capital improvements and bond-related costs. These funds were classified as long term due to the restrictions.

Investments are made in accordance with and subject to the provisions of the Uniform Prudent Investor Act codified as article six-c, chapter forty-four of the West Virginia Code.

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.

Deferred Outflows and Inflows 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. An 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. There were no deferred outflows or inflows of resources as of June 30, 2014 and 2013.

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.

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 2014 and 2013, the University received and disbursed approximately $21,063,000 and $21,379,000, respectively, 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 combined financial statements. In 2014 and 2013, the University received and disbursed $5,751,764 and $5,861,431, 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 combined 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 combined 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 combined 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.

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 combined 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.

Recent Statements Issued by the Governmental Accounting Standards Board — The GASB has issued Statement No. 69¸*Government Combinations and Disposals of Government Operations,* effective for fiscal years beginning after December 31, 2014. This statement provides guidance on measurement and reporting of combinations and disposals of government operations. The University has not yet determined the effect that the adoption of GASB Statement No. 69 may have on its financial statements.

The GASB also issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees,* effective for fiscal years beginning after June 15, 2014. This statement requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. In addition, the Statement requires: (1) A government guarantor to consider qualitative factors when determining if a payment on its guarantee is more likely than not to be required. Such factors may include whether the issuer of the guaranteed obligation is experiencing significant financial difficulty or initiating the process of entering into bankruptcy or financial reorganization; (2) An issuer government that is required to repay a guarantor for guarantee payments made to continue to report a liability unless legally released. When a government is released, the government would recognize revenue as a result of being relieved of the obligation; (3) A government guarantor or issuer to disclose information about the amounts and nature of nonexchange financial guarantees. The University has not yet determined the effect that the adoption of GASB Statement No. 70 may have on its financial statements.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents as of June 30, 2014 and 2013 was as follows:

	2014		
	Current	**Noncurrent**	**Total**
State Treasurer	$ 15,192,752	$ -	$ 15,192,752
Trustee Bank	-	10	10
Bank	1,020,486	-	1,020,486
	$ 16,213,238	$ 10	$ 16,213,248

	2013		
	Current	**Noncurrent**	**Total**
State Treasurer	$ 15,863,730	$ -	$ 15,863,730
Trustee Bank	-	9,880	9,880
Bank	816,564	-	816,564
	$ 16,680,294	$ 9,880	$ 16,690,174

Cash and cash equivalents with the State Treasurer included $92,830 in 2014 and $107,107 in 2013 of restricted cash for grants.

Cash and cash equivalents with trustee banks represents funds reserved for debt payments on the University Refunding Revenue Bonds issued in January 2003, September 2004, and May 2005. The University uses the Trustee Bank as its trustee for the bond proceeds.

The combined carrying amount of cash in bank at June 30, 2014 and 2013 was $1,020,486 and $816,564 as compared with the combined bank balance of $1,043,880 and $877,546, 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, 2014 and 2013, the University was exposed to custodial credit risk of $378,486 and $166,191, respectively.

Amounts with the State Treasurer as of June 30, 2014 and 2013, are comprised of three investment pools, the WV Money Market Pool, the WV Government Money Market Pool and the WV Short Term Bond Pool.

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:

	2014		2013	
	Carrying Value	S & P	Carrying Value	S & P
External Pool	(in Thousands)	Rating	(in Thousands)	Rating
WV Money Market	$ 14,741,381	AAAm	$ 14,717,079	AAAm
WV Government Money Market	$ 122,433	AAAm	$ 103,469	AAAm
WV Short Term Bond	$ 312,723	Not Rated	$ 1,082,111	Not Rated

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

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

	2014		2013	
	Carrying Amount	WAM	Carrying Amount	WAM
External Pool	(in thousands)	(days)	(in thousands)	(days)
WV Money Market	$ 14,741,381	52	$ 14,717,079	52
WV Government Money Market	$ 122,433	50	$ 103,469	50

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

	2014		2013	
		Effective		Effective
	Carrying Value	Duration	Carrying Value	Duration
External Pool	(in thousands)	(days)	(in thousands)	(days)
WV Short Term Bond	$ 312,723	358	1,082,111	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. INVESTMENTS

Investments are held with the Trustee Bank and are restricted by the bond indentures and invested in mortgage-backed securities which had carrying values of $2 and $397,835 for the years ended June 30, 2014 and 2013, respectively. The mortgage-backed securities are issued by the United States Government or FNMA. These funds have no significant custodial credit risk or interest rate risk. These funds are not exposed to a significant concentration of credit risk nor any foreign currency risk.

5. ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2014 and 2013, are as follows:

	2013	2013
Student tuition and fees — net of allowance for doubtful accounts of $558,780 and $388,257 in 2014 and 2013, respectively	$ 507,996	$ 436,028
Grants and contracts receivable	490,445	234,625
	$ 998,441	$ 670,653

6. CAPITAL ASSETS

Summary of capital assets transactions for the University as of June 30, 2014 and 2013, are as follows:

	2014			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 1,120,925	$ -	$ -	$ 1,120,925
Construction in progress	4,275,823	3,768,668	6,439,103	1,605,388
Total capital assets not being depreciated	5,396,748	3,768,668	6,439,103	2,726,313
Capital assets being depreciated:				
Land improvements	1,995,010	1,801,064	-	3,796,074
Land improvements - leased	825,416	1,000,000	-	1,825,416
Infrastructure	14,329,873	101,056	-	14,430,929
Buildings	163,299,442	3,376,385	-	166,675,827
Equipment	12,363,624	1,246,554	660,305	12,949,873
Library books	3,943,041	71,525	151,904	3,862,662
Total capital assets being depreciated	196,756,406	7,596,584	812,209	203,540,781
Less accumulated depreciation for:				
Land improvements	670,105	269,501	-	939,606
Land improvements - leased	293,481	121,694	-	415,175
Infrastructure	4,769,841	677,902	-	5,447,743
Buildings	48,808,280	4,429,064	-	53,237,344
Equipment	7,130,490	1,282,340	597,911	7,814,919
Library books	3,345,813	117,836	151,905	3,311,744
Total accumulated depreciation	65,018,010	6,898,337	749,816	71,166,531
Capital assets being depreciated - net	131,738,396	698,247	62,393	132,374,250
Total Capital Assets	$ 137,135,144	$ 4,466,915	$ 6,501,496	$ 135,100,563

	2013			
	Beginning Balance	**Additions**	**Reductions**	**Ending Balance**
Capital assets not being depreciated:				
Land	$ 1,120,925	$ -	$ -	$ 1,120,925
Construction in progress	8,868,416	16,192,453	20,785,046	4,275,823
Total capital assets not being depreciated	9,989,341	16,192,453	20,785,046	5,396,748
Capital assests being depreciated:				
Land improvements	1,874,130	120,880	-	1,995,010
Land improvements - leased	825,416	-	-	825,416
Infrastructure	9,112,675	5,217,198	-	14,329,873
Buildings	147,843,887	15,455,555	-	163,299,442
Equipment	10,704,882	2,605,167	946,425	12,363,624
Library books	3,898,924	96,283	52,166	3,943,041
Total capital assets being depreciated	174,259,914	23,495,083	998,591	196,756,406
Less accumulated depreciation for:				
Land improvements	540,775	129,330	-	670,105
Land improvements - leased	238,453	55,028	-	293,481
Infrastructure	4,146,701	623,140	-	4,769,841
Buildings	44,822,510	3,985,770	-	48,808,280
Equipment	6,891,803	1,134,225	895,538	7,130,490
Library books	3,263,503	134,476	52,166	3,345,813
Total accumulated depreciation	59,903,745	6,061,969	947,704	65,018,010
Capital assets being depreciated - net	114,356,169	17,433,114	50,887	131,738,396
Total Capital Assets	$ 124,345,510	$ 33,625,567	$ 20,835,933	$ 137,135,144

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.

The University has been approved to receive $1,150,000 of Education, Arts, Science, and Tourism (EAST) bond proceeds issued by the West Virginia Development Office during August 2010. Through the year ended June 30, 2014, total proceeds of $1,123,753 have been received by the University under this bond issuance. The West Virginia Development Office is responsible for repayment of the debt.

At June 30, 2014, the University had no significant outstanding contractual commitments for property, plant, and equipment.

7. LEASES

Future annual lease payments on capital leases for years subsequent to June 30, 2014, are as follows:

Years Ending June 30,	Principal	Interest	Total
2015	$194,946	$14,315	$209,261
2016	140,114	11,403	151,517
2017	142,462	9,055	151,517
2018	144,850	6,667	151,517
2019-2021	322,223	6,064	328,287
Total	$944,595	$47,504	$992,099

The net book value of capital assets held under the capital lease as of June 30, 2014 and 2013, was $1,410,240 and $531,935, respectively.

8. LONG-TERM LIABILITIES

Summary of long-term obligation transactions for the University for the years ended June 30, 2014 and 2013 are as follows:

	2014				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and capital leases:					
Bonds payable	$44,635,000	$6,730,000	$8,120,000	$43,245,000	$1,335,000
Bond premium/discount	494,542	79,278	35,477	538,343	-
Capital lease obligations	140,880	1,001,340	197,625	944,595	194,946
Total bonds and capital leases	45,270,422	7,810,618	8,353,102	44,727,938	1,529,946
Other long-term liabilities:					
Advances from federal sponsors	559,248	-	32,673	526,575	-
Compensated absences	1,447,221	-	259,531	1,187,690	762,028
Other postemployment benefits liability	9,430,969	229,166	-	9,660,135	-
Total other long-term liabilities	11,437,438	229,166	292,204	11,374,400	762,028
Total long-term liabilities	$56,707,860	$8,039,784	$8,645,306	$56,102,338	$2,291,974

	2013				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and capital leases:					
Bonds payable	$ 45,910,000	$ -	$ 1,275,000	$ 44,635,000	$ 1,245,000
Bond premium/discount	511,976	-	17,434	$ 494,542	-
Capital lease obligations	222,309	-	81,429	140,880	83,739
Total bonds and capital leases	46,644,285	-	1,373,863	45,270,422	1,328,739
Other long-term liabilities:					
Advances from federal sponsors	576,379	-	17,131	559,248	-
Compensated absences	1,098,435	348,786		1,447,221	795,001
Other postemployment benefits liability	9,226,982	203,987	-	9,430,969	-
Total other long-term liabilities	10,901,796	552,773	17,131	11,437,438	795,001
Total long-term liabilities	$ 57,546,081	$ 552,773	$ 1,390,994	$ 56,707,860	$ 2,123,740

9. BONDS PAYABLE

Bonds payable as of June 30, 2014 and 2013, consisted of the following:

	Interest Rate	Annual Principal Installment Due	Principal Amount Outstanding	
			2014	2013
Student Fee Revenue Bonds, due through 2033	4.0%–5.125%	$105,000–370,000	$ -	$ 4,860,000
Infrastructure Revenue Bonds, due through 2024	3.4%–4.5%	$125,000–240,000	-	2,140,000
Residence Facilities Revenue Bonds, due through 2035	3.63%–4.5%	$435,000–1,450,000	19,560,000	20,090,000
Wellness Center Facilities Revenue Bonds, due through 2037	3.75%–5.0%	$435,000–1,170,000	17,130,000	17,545,000
Refinance Revenue Bonds, due through 2033	3.0% - 4.375%	$350,000-460,000	6,555,000	-
			43,245,000	44,635,000
Discount			(93,494)	(128,692)
Premium			631,837	623,234
			$ 43,783,343	$ 45,129,542

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.

Student Fee Revenue Bonds — In January 2003, $5,990,000 of Student Fee Revenue Bonds, Series 2003 ("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 January 1, 2003, by and between the Board and the trustee. The Bonds were issued to (1) finance the costs of planning, designing, acquiring equipment, and construction of certain capital improvements, including the Field House, the expansion and improvement of the Arts Center, a new parking lot, and other capital renovations, repairs, and improvements; (2) establishing of a debt service reserve fund; (3) establishing of a capitalized interest fund to pay interest on the Bonds due on December 1, 2003; and (4) paying the costs of issuance of the Bonds and related costs. These bonds were financed in December 2013.

The debt service reserve fund must maintain deposits totaling $390,108 as required by the Indenture. Deposits in the debt service reserve funds totaled $397,835 as of June 30, 2013.

For both the years ended June 30, 2014 and 2013, capital financing fees (“fees”) of $69 per student per semester, based on full-time equivalent (FTE) enrollment, were pledged to the Bonds with pro rata reductions for those students enrolled part time and during the summer term.

Fees shall, at all times, be sufficient to provide pledged revenues each year equal to at least 110% of maximum annual debt service. During the years ended June 30, 2014 and 2013, net revenues, when combined with other monies legally available for payment of debt service, were in excess of the maximum annual debt service.

Infrastructure Revenue Bonds — In September 2004, $3,405,000 of Infrastructure Revenue Bonds, Series 2004 (the “Bonds”) was 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 January 1, 2003, by and between the Board and the Trustee. The Bonds were issued to finance the costs of planning, design, acquisition, construction, and equipping of certain capital improvements for the University, including certain roads, water and sewer system expansion, extensions and improvements, and other infrastructure projects on the West Campus of the University and other capital renovations and improvements to the University’s campus, and to pay the costs of issuance of the Bonds and related costs. These bonds were refinanced in December 2013.

The Bonds maturing on and after June 1, 2014, are subject to redemption prior to maturity, in multiples of $5,000, at par, plus accrued interest to the date fixed for redemption.

For both the years ended June 30, 2014 and 2013, fees of $48 per student per semester, based on FTE enrollment, were pledged to the Bonds, with pro rata reductions for those students enrolled part time and during the summer term. 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.

Fees shall, at all times, be sufficient to provide pledged revenues each fiscal year equal to at least 100% of maximum annual debt service. During the years ended June 30, 2014 and 2013, net revenues, when combined with other monies legally available for payment of debt service, were in excess of the maximum annual debt service.

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, 2014 and 2013, 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, 2014 and 2013, 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 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.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of old debt of $11,287. The difference, reported in the accompanying financial statements as a deduction of bonds payable, is being charged to operations during 2014. The University completed the refunding to reduce its total debt service payments over the next 20 years by $573,801 and to obtain an economic gain (difference between the present value of the old and new debt service payments) of

$461,337. This savings represents 4.4% of the original debt service payments and exceeds the 3% minimum set by the Governor's office.

Summary of the annual aggregate principal and interest payments for years subsequent to June 30, 2014, are as follows:

Years Ending June 30	2005 Principal	2005 Interest	2007 Principal	2007 Interest
2015	$ 550,000	$ 972,500	$ 430,000	$ 791,800
2016	575,000	950,500	450,000	770,300
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
2020-2024	3,865,000	3,764,750	2,985,000	3,112,625
2025-2029	4,925,000	2,698,000	3,740,000	2,356,550
2030-2034	6,290,000	1,336,500	4,690,000	1,415,087
2035-2037	1,450,000	72,500	3,360,000	306,900
Total	$ 19,560,000	$ 12,467,750	$ 17,130,000	$ 10,934,562

Years Ending June 30	2013 Principal	2013 Interest	Total Principal	Total Interest
2015	$ 355,000	$ 218,962	$ 1,335,000	$ 1,983,262
2016	365,000	208,313	1,390,000	1,929,113
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
2020-2024	2,170,000	702,863	9,020,000	7,580,238
2025-2029	1,280,000	411,131	9,945,000	5,465,681
2030-2034	1,215,000	134,775	12,195,000	2,886,362
2035-2037	-	-	4,810,000	379,400
Total	$ 6,555,000	$ 2,233,631	$ 43,245,000	$ 25,635,943

10. 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, 2014, 2013, and 2012 the noncurrent liability related to OPEB costs was $9,660,135, $9,430,969, and $9,226,982, respectively. 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. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was $993,495 and $789,507, respectively, during 2013. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was $3,448,972 and $733,091, respectively, during 2012. As of and for the years ended June 30, 2014, 2013, and 2012, there were 32, 29, and 36 retirees receiving these benefits, respectively.

11. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

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

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

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.

During the year ended June 30, 2005, the Commission issued $167 million of 2004 Series B 30-year revenue bonds to fund capital projects at various higher education institutions in the State. The University has been approved to receive $12.5 million of these funds. In addition, the University received proceeds from construction period interest revenues. State lottery funds will be used to repay the debt, although University revenues are pledged if lottery funds prove to be insufficient. As of June 30, 2013, the University has recognized the entire amount authorized. Additionally, the University received $0 from construction period interest proceeds.

During the year ended June 30, 2012, the State of West Virginia, through the Higher Education Policy Commission, issued $76.9 million of Higher Education revenue bonds to fund capital project at various higher education institutions in the State. The University has been approved to receive $11.8 million of these funds. State lottery funds will be used to repay the debt, although University revenues are pledged if lottery funds prove to be insufficient. As of June 30, 2014, the University has recognized the entire amount authorized.

Debt service assessed as of June 30, 2014 and 2013, are as follows:

	2014	2013
Other	37,820	37,820
	$ 37,820	$ 37,820

12. UNRESTRICTED COMPONENTS OF NET POSITION

The University did not have any board designated unrestricted components of net position as of June 30, 2014 or 2013.

	2014	2013
Total unrestricted net assets before OPEB liability	$11,185,770	$ 8,950,547
Less OPEB liability	9,660,135	9,430,969
Total unrestricted component of net position	$ 1,525,635	$ (480,422)

13. RETIREMENT PLANS

Substantially, all full-time employees of the University participate in either the West Virginia Teachers' retirement System (STRS), 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 STRS and TIAA-CREF. Effective July 1, 1991, the STRS was closed to new participants. Current participants in the STRS 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, 2014 and 2013, only one employee has elected this plan.

The STRS is a cost-sharing, defined benefit, public employee retirement system. Employer and employee contribution rates are established annually by the State Legislature. The contractual maximum contribution rate is 15%. The University accrued and paid its contribution to the STRS at the rate of 15% of each enrolled employee's total annual salary for the years ended June 30, 2014 and 2013. Required employee contributions were at the rate of 6% of total annual salary for the years ended June 30, 2014 and 2013. Participants in the STRS may retire with full benefits upon reaching age 60 with five years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest five years' salary out of the last 15 years) multiplied by the number of years of service.

Total contributions that the University was required to contribute to the STRS for the years ended June 30, 2014, 2013, and 2012, were $89,159, $120,736, and $126,618, respectively, which consisted of $29,161, $82,653, and $86,841 from the University in 2014, 2013, and 2012, respectively, and $59,998, $38,083, and $39,777, from the covered employees in 2014, 2013, and 2012, respectively.

The contribution rate is set by the State Legislature on an overall basis and the STRS does not perform a calculation of the contribution requirement for individual employers, such as the University. Historical trend and net pension obligation information is available from the annual financial report of the Consolidated Public Retirement Board. A copy of the report may be obtained by writing to the Consolidated Public Retirement Board, Building 5, Room 1000, Charleston, West Virginia 25305.

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, 2014, 2013, and 2012, were $2,494,766, $2,441,864, and $2,398,366, respectively, which consisted of equal contributions from the University and covered employees in 2014, 2013, and 2012 of $1,247,383, $1,220,932, and $1,199,183, respectively.

The total contributions that the University was required to contribute to the Great West for the years ended June 30, 2014, 2013, and 2012, were $149,449, $123,420, and $79,882, respectively, which consisted of equal contributions from the University and the covered employee in 2014, 2013, and 2012 of $74,724, $61,710, and $39,941, respectively.

The University's total payroll for the years ended June 30, 2014 and 2013 was $26,770,334 and $26,441,421, respectively, and total covered employees' salaries in the STRS, TIAA-CREF, and Great West were $486,027, $20,789,714, and $1,245,405 in 2014, and $633,295, $20,348,897, and $1,028,499 in 2013, respectively.

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, 2014 and 2013, the Foundation's net assets (including unrealized gains) totaled $28,113,853 and $23,253,916, 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, 2014 and 2013, the Foundation contributed $1,022,050 and $795,052, 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 2013. 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 and $38,000 for the years ended June 30, 2014 and 2013, and are included in supplies and other services (Instruction) in the accompanying combined statements of revenues, expenses, and changes in net position.

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

	Leases
2015	$ 229,260
2016	229,260
2017	229,260
2018	229,260
2019	229,260
2020-2023	917,040
Total minimum lease payments	$2,063,340

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, 2014 or 2013.

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. SEGMENT INFORMATION

Condensed statements of net position as of June 30, 2014 and 2013:

	Student Fee Revenue Bonds 2003		Infrastructure Revenue Bonds 2004		Residence Facilities Projects Revenue Bonds 2005		Wellness Center Revenue Bonds 2007		Refunding Revenue Bonds 2013	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Assets:										
Current assets	-	1,422,487	-	648,630	8,178,466	7,180,722	1,081,047	949,400	2,240,989	-
Noncurrent assets	-	3,687,406	-	1,860,474	20,635,517	20,407,235	17,545,323	18,004,983	4,742,338	-
Total assets	-	5,109,893	-	2,509,104	28,813,983	27,587,957	18,626,370	18,954,383	6,983,327	-
Liabilities:										
Current liabilities	-	170,196	-	167,540	2,000,862	1,899,818	582,130	591,622	373,247	-
Noncurrent liabilities	-	4,753,359	-	1,979,590	20,348,263	20,233,920	16,590,478	17,020,478	6,243,222	-
Total liabilities	-	4,923,555	-	2,147,130	22,349,125	22,133,738	17,172,608	17,612,100	6,616,469	-
Net position:										
Net investment in capital assets	-	(1,616,163)	-	(279,117)	(81,037)	(440,426)	524,842	569,502	(1,855,888)	-
Restricted:										
Debt service	-	387,021	-	-	-	-	(65,980)	-	-	-
Capital projects	-	-	-	-	-	-	-	-	-	-
Unrestricted	-	1,415,480	-	641,091	6,545,895	5,894,645	994,900	772,781	2,222,746	-
Total net position	-	186,338	-	361,974	6,464,858	5,454,219	1,453,762	1,342,283	366,858	-
Total net position and liabilities	-	5,109,893	-	2,509,104	28,813,983	27,587,957	18,626,370	18,954,383	6,983,327	-

Condensed statements of revenues, expenses, and changes in net position for the years ended June 30, 2014 and 2013:

	Student Fee Revenue Bonds 2003		Infrastructure Revenue Bonds 2004		Residence Facilities Projects Revenue Bonds 2005		Wellness Center Revenue Bonds 2007		Refunding Revenue Bonds 2013	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Operating:										
Operating revenues	$ 492,289	$ 483,458	-	$ 340,387	$ 16,680,715	$ 16,459,599	$ 2,471,217	$ 2,504,054	$ 468,235	$ -
Operating expenses	(69,980)	(237,778)	(324,279)	(230,077)	(14,701,195)	(16,717,744)	(1,553,857)	(1,747,726)	(97,871)	-
Net operating income	422,309	245,680	(324,279)	110,310	1,979,520	(258,145)	917,360	756,328	370,364	-
Nonoperating:										
Nonoperating revenues	271	22,307	2	2	9,314	10,146	1,468	10	1	-
Nonoperating expenses	(608,918)	(250,814)	(37,697)	(95,447)	(978,195)	(983,509)	(823,377)	(821,112)	(3,508)	-
Net nonoperating loss	(608,647)	(228,507)	(37,695)	(95,445)	(968,881)	(973,363)	(821,909)	(821,102)	(3,507)	-
Increase (decrease) in net assets	(186,338)	17,173	(361,974)	14,865	1,010,639	(1,231,508)	95,451	(64,774)	366,857	-
Net position — beginning of year	186,338	169,165	361,974	347,109	5,454,219	6,685,727	1,342,283	1,407,057	-	-
Net position — end of year	$ -	$ 186,338	$ -	$ 361,974	$ 6,464,858	$ 5,454,219	$ 1,437,734	$ 1,342,283	$ 366,857	$ -

Condensed statements of cash flows for the years ended June 30, 2014 and 2013:

	Student Fee Revenue Bonds 2003		Infrastructure Revenue Bonds 2004		Residence Facilities Projects Revenue Bonds 2005		Wellness Center Revenue Bonds 2007		Refunding Revenue Bonds 2013	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Net cash provided by (used in) operating activities	$ 317,815	$ 453,247	$ (323,333)	$ 338,973	$ 4,163,862	$ 1,206,857	$ 729,193	$ 1,240,659	$ 448,168	$ -
Net cash used in capital and related financing	(384,104)	(621,598)	(45,237)	(250,898)	(1,914,302)	(3,765,074)	(1,267,541)	(2,119,825)	(272,488)	-
Net cash provided by (used in) \investing activities	(1,356,198)	250,814	(279,114)	-	(923,952)	1,021,808	-	821,112	2,045,241	-
Increase (decrease) in cash and cash equivalents	(1,422,487)	82,463	(647,684)	88,075	1,325,608	(1,536,409)	(538,348)	(58,054)	2,220,921	-
Cash and cash equivalents — beginning of year	1,422,487	1,340,024	647,684	559,609	6,407,260	7,943,669	944,307	1,002,361	-	-
Cash and cash equivalents — end of year	$ -	$ 1,422,487	$ -	$ 647,684	$ 7,732,868	$ 6,407,260	$ 405,959	$ 944,307	$ 2,220,921	$ -

18. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2014 and 2013, the following represents operating expenses within both natural and functional classifications:

2014	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Fees Assessed by the Commission	Total
Instruction	$ 12,582,136	$ 2,553,536	$ 1,483,445	$ 3,641	$ -	$ -	$ -	$ 16,622,758
Research	15,209	(103)	4,676	-	-	-	-	19,782
Public service	172,585	31,554	98,315	507	-	-	-	302,961
Academic support	2,063,401	443,301	835,487	1,737	-	-	-	3,343,926
Student services	2,234,890	507,540	1,139,525	792	-	-	-	3,882,747
General institutional support	3,132,903	775,554	2,113,122	649	-	-	-	6,022,228
Operations and maintenance of plant	1,664,489	449,308	1,692,449	1,591,121	-	-	-	5,397,367
Student financial aid	-	-	-	-	2,884,914	-	-	2,884,914
Auxiliary enterprises	4,963,311	1,015,587	6,064,426	1,615,207	-	-	-	13,658,531
Depreciation	-	-	-	-	-	6,898,337	-	6,898,337
Other	-	-	-	-	-	-	306,012	306,012
Total	$ 26,828,924	$ 5,776,277	$ 13,431,445	$ 3,213,654	$ 2,884,914	$ 6,898,337	$ 306,012	$ 59,339,563

2013	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Fees Assessed by the Commission	Total
Instruction	$ 12,821,684	$ 2,594,549	$ 1,459,265	$ 280	$ -	$ -	$ -	$ 16,875,778
Research	4,458	1,516	125	-	-	-	-	6,099
Public service	156,224	32,266	121,851	437	-	-	-	310,778
Academic support	2,117,973	497,183	939,533	1,641	-	-	-	3,556,330
Student services	2,237,411	545,861	1,401,555	936	-	-	-	4,185,763
General institutional support	2,739,836	925,736	2,098,861	624	-	-	-	5,765,057
Operations and maintenance of plant	1,629,657	462,648	1,440,088	1,636,091	-	-	-	5,168,484
Student financial aid	-	-	-	-	2,341,116	-	-	2,341,116
Auxiliary enterprises	5,022,674	1,132,996	6,365,985	1,506,178	-	-	-	14,027,833
Depreciation	-	-	-	-	-	6,061,969		6,061,969
Other	-	-	-	-	-	-	309,521	309,521
Total	$ 26,729,917	$ 6,192,755	$ 13,827,263	$ 3,146,187	$ 2,341,116	$ 6,061,969	$ 309,521	$ 58,608,728

19. COMPONENT UNIT'S DISCLOSURES

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

SHEPHERD UNIVERSITY FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Organization and Nature of Operations:
The Shepherd University Foundation, Inc., (the Foundation) is a nonprofit organization incorporated in the state of West Virginia and headquartered in Shepherdstown, West Virginia. The primary purpose of the Foundation is to provide assistance and support for the students, facilities and programs of Shepherd University.

Basis of Accounting:
The financial statements of the Shepherd University Foundation, Inc. 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:

<u>Unrestricted net assets</u> - Net assets that are not subject to donor-imposed stipulations.

<u>Temporarily restricted net assets</u> - 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.

<u>Permanently restricted net assets</u> - 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.

Note 1. Summary of Significant Accounting Policies (Continued)

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 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 for replaced items in the amount of $300 or more are capitalized and the replaced items 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

Advertising:
Advertising costs are expensed as incurred and amounted to $1,570 and $2,409 for the years ended June 30, 2014 and 2013, 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 statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services based upon management's judgment and past experience.

Note 1. Summary of Significant Accounting Policies (Continued)

Tax Exempt Status:
The Internal Revenue Service has determined that the Foundation is an organization described in Section 501(c) (3) of the Internal Revenue Code and is therefore exempt from federal income tax.

The Foundation follows the FASB Accounting Standards Codification, which provides guidance on accounting for uncertainty in income taxes recognized in an enterprise's financial statements. The guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on derecognition, classification, interest and penalties, accounting interim periods, disclosure and transition. As of June 30, 2014 and 2013, the Foundation had no uncertain tax positions that qualify for either recognition or disclosure in the Foundation's financial statements. The Foundation's policy is to recognize interest and penalties on unrecognized tax matters in income tax expense in the financial statements. Generally, the tax years before 2010 are no longer subject to examination by federal, state or local taxing authorities.

Use of Estimates in the Preparation of Financial Statements:
The preparation of 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 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 invests in a portfolio that 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 financial statements.

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, 2014.

Note 2. Pledges Receivable

	2014	2013
Receivable in less than one year	$ 230,295	$ 91,218
Receivable in one to five years	2,356,000	106,000
Receivable in six to ten years	1,706,000	-
Total pledges receivable	4,292,295	197,218
Less discount to present value	(967,645)	(7,655)
Net pledges receivable	$ 3,324,650	$ 189,563

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, 2014 and 2013 consist of temporarily and permanently restricted net assets. These unconditional promises to give are scheduled to be received by the Foundation over the next several years, and are considered to be fully collectible.

Note 3. Investments

The Foundation maintains investment securities with various brokerage companies. The Foundation also maintains investments in real estate and certificates of deposit, several corporate bonds and some common stock held by the Foundation.

Investment securities at June 30, 2014 and 2013 are composed of the following:

Description	Cost	Market
2014		
Certificates of deposit	$ 773,356	$ 773,356
U.S. Government Securities	7,425,058	7,924,128
Corporate bonds and notes	3,459,030	3,396,697
Common stocks and mutual funds	10,429,723	13,083,067
Investment Securities	$ 22,087,167	$ 25,177,248
2013		
Certificates of deposit	891,836	891,809
U.S. Government Securities	7,436,805	8,140,647
Corporate bonds and notes	2,657,460	2,584,684
Common stocks and mutual funds	10,720,397	11,915,208
Investment Securities	$ 21,706,498	$ 23,532,348

Note 3. Investments (Continued)

At June 30, 2014 and 2013, there was $669,429 and $847,768, 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 on the statement of financial position and is comprised of the following:

Description	Cost	Accumulated Depreciation	Net Book Value
2014			
Land	$ 40,000	$ -	$ 40,000
Building	160,202	75,428	84,774
	$ 200,202	$ 75,428	$ 124,774
2013			
Land	$ 133,000	$ -	$ 133,000
Building	160,202	71,423	88,779
	$ 293,202	$ 71,423	$ 221,779

The following is a summary of the Foundation's investments at June 30, 2014 and 2013:

Description	2014	2013
Investment securities	$ 25,177,248	$ 23,532,348
Real estate	124,774	221,779
	$ 25,302,022	$ 23,754,127

In addition, recent economic uncertainty and market events have led to unprecedented volatility in currency, commodity, credit and equity markets culminating in failures of some banking and financial services firms and government intervention to solidify others. These recent events underscore the level of investment risk associated with the current economic environment, and accordingly the level of risk in 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

Note 4. Interest in Life Estate (Continued)

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, 2014 and 2013 were $302,653 and $287,234, 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. Equipment

Equipment consists of the following:

	2014	2013
Office equipment (at cost)	$ 26,845	$ 21,845
Accumulated depreciation	(19,874)	(18,709)
Net book value	$ 6,971	$ 3,136

Note 6. Custodial Liabilities

The gross receipts and disbursements for the custodial accounts, the interest earned, gains on investments and the net transfers to/from the custodial accounts for the years ended June 30, 2014 and 2013 are as follows:

	2014	2013
Custodial receipts	$ 211,517	$ 305,903
Custodial payments	(556,172)	(699,053)
Interest and gains on investments	16,748	8,321
Net increase (decrease) in custodial liabilities	$ (327,907)	$ (384,829)

Note 7. Gift Annuities

Gift annuities payable consist of the following liabilities:

	2014	2013
Daniel and Orpha Cowgill Annuity	$ 28,802	$ 31,364
James K. Wright, Jr. Annuity	23,653	27,164
Benjamin and Mary Lou Mehrling Annuity	3,766	4,051
James K. and Gladys L. Wright Annuity	12,298	13,329
Jack and Pat Egle Annuity	29,157	30,446
MEO Annuity	60,307	61,925
Keith Hess Annuity	11,003	-
Total	$ 168,986	$ 168,279

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.

Note 8. 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, 2014 and 2013 was $9,190 and $7,356, respectively.

Note 9. 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 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 10. Concentration of Credit Risk

The Foundation places the majority of its demand deposits with one bank and at the current time does not limit the daily cash balances to the federally insured limits. From time to time during 2014 and 2013, the Foundation's bank account balances exceeded the federally insured limit. Management has evaluated this risk and considers it to be a normal business risk.

Note 11. 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, 2014 and 2013, respectively.

Note 12. Fair Value Measurements

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

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

- 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.

Note 12. Fair Value Measurements (Continued)

Fair value of assets measured on a recurring basis at June 30, 2014 and 2013 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)
June 30,2014				
Pledges receivable	$ 3,324,650	$ -	$ -	$ 3,324,650
Investments:				
US Large Cap (stock)	1,959,555	1,959,555	-	-
US Small and Mid-Cap (stock)	1,667,494	1,667,494	-	-
International Equity (stock)	2,305,029	2,305,029	-	-
Domestic Fixed Income	9,174,461	9,174,461	-	
International Fixed Income	947,176	947,176	-	-
REIT's (funds)	897,945	897,945	-	-
Commodities (funds)	1,663,744	1,663,744	-	-
Global Equity (funds)	261,284	261,284	-	-
Hedged Equity (funds)	1,263,698	1,263,698	-	-
Master Limited Partnerships (funds)	1,443,685	1,443,685	-	-
Diversified Alternatives (funds)	2,328,143	1,818,515	-	509,628
Managed Futures (funds)	491,678	491,678	-	-
	$27,728,542	$ 23,894,264	$ -	$ 3,834,278
June 30,2013				
Pledges receivable	$ 189,563	$ -	$ -	$ 189,563
Investments:				
US Large Cap (stock)	1,719,596	1,719,596	-	-
US Small and Mid-Cap (stock)	1,698,223	1,698,223	-	-
International Equity (stock)	1,491,893	1,491,893	-	-
Domestic Fixed Income	8,944,299	8,944,299	-	-
International Fixed Income	808,172	808,172	-	-
REIT's (funds)	862,475	862,475	-	-
Commodities (funds)	1,168,357	1,168,357	-	-
Global Equity (funds)	210,086	210,086	-	-
Hedged Equity (funds)	1,279,909	1,279,909	-	-
Master Limited Partnerships (funds)	1,170,621	1,170,621	-	-
Diversified Alternatives (funds)	2,296,359	1,758,700	-	537,659
Managed Futures (funds)	990,549	990,549	-	-
	$22,830,102	$ 22,102,880	$ -	$ 727,222

Note 12. Fair Value Measurements (Continued)

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 for the investments noted above is determined by reference to quoted market prices, other relevant information available generated by market transactions, 3rd party valuations, and estimated pricing models or discounted cash flows.

Total realized gain (loss) for the investments noted above that is included in the change in net assets at June 30, 2014 and 2013 were $91,054 and $(89,123), respectively. The unrealized gain (loss) for the investments noted above included in the change in net assets at June 30, 2014 and 2013 was $1,411,972 and $707,716, 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 Collins Capital Low Volatility Performance Fund II, Ltd. (Collins Capital 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, 2014 and 2013:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	June 30,			
	Pledges Receivable	Collins Capital Fund	Ironwood Fund	Total
Fair Value as of June 30, 2013	$ 189,563	$ 537,659	$ -	$ 727,222
New pledges	4,250,000	-	-	4,250,000
Pledges written off	(4,333)	-	-	(4,333)
Payments received	(150,590)	-	-	(150,590)
Change in valuation	(959,990)	-	-	(959,990)
Purchase of funds	-	-	500,000	500,000
Sale of funds	-	(555,233)	-	(555,233)
Realized gain	-	5,233	-	5,233
Unrealized gain	-	12,341	9,628	21,969
Fair Value as of June 30, 2014	$ 3,324,650	$ -	$ 509,628	$ 3,834,278
Fair Value as of June 30, 2012	$ 343,878	$ 505,449	$ -	$ 849,327
New pledges	-	-	-	-
Payments received	(168,771)	-	-	(168,771)
Change in valuation	14,456	-	-	14,456
Unrealized gain	-	32,210	-	32,210
Fair Value as of June 30, 2013	$ 189,563	$ 537,659	$ -	$ 727,222

The amount of total gains or losses included in the changes in net assets for the years ending June 30, 2014 and 2013 were $46,666 and $1,808, respectively.

Note 13. 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 48-58% of the total fund, real estate in the range of 0% to 9%, fixed income securities in the range of 36% to 46%, and cash in the range of 0% to 7%.

Endowment net assets consisted of donor permanently restricted endowment funds of $24,137,252 and $23,268,017 as of June 30, 2014 and 2013, respectively. The investment income derived from the endowment funds are primarily restricted to providing scholarships for students.

During the year ended June 30, 2014, the Foundation, upon request of the original donor transferred $31,279, of which $30,723 was original contributions from the donor, to an unrelated foundation.

Note 13. Endowments (Continued)

The changes in endowment net assets for the years ended June 30, 2014 and 2013 were as follows:

Endowment net assets at July 1, 2012	$ 22,071,980
Investment income	15,216
Contributions	1,157,033
Net assets released from restrictions	(840)
Transfers	24,628
Endowment net assets at June 30, 2013	$ 23,268,017
Investment income	20,159
Contributions	836,807
Net assets released from restrictions	(31,279)
Transfers	43,548
Endowment net assets at June 30, 2014	$ 24,137,252

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. In accordance with GAAP, deficiencies of this nature that are included in unrestricted net assets were approximately $1,000 and $378,000 as of June 30, 2014 and 2013, respectively. These deficiencies resulted from unfavorable market fluctuations.