

# **Shawnee State University Development Foundation**

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**Financial Report**

**June 30, 2018**





# Dave Yost • Auditor of State

Board of Trustees  
Shawnee State University Development Foundation  
940 Second Street  
Portsmouth, Ohio 45662

We have reviewed the *Independent Auditor's Report* of the Shawnee State University Development Foundation, Scioto County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2017 through June 30, 2018. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Shawnee State University Development Foundation is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

November 13, 2018

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# Shawnee State University Development Foundation

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## **Independent Auditor's Report**

To the Board of Trustees  
Shawnee State University Development Foundation

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Shawnee State University Development Foundation (the "Foundation"), which comprise the statement of net assets as of June 30, 2018 and 2017 and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shawnee State University Development Foundation as of June 30, 2018 and 2017 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees  
Shawnee State University Development Foundation

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2018 on our consideration of Shawnee State University Development Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Shawnee State University Development Foundation's internal control over financial reporting and compliance.

*Plante & Moran, PLLC*

October 8, 2018



# Shawnee State University Development Foundation

## Statement of Net Assets

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 790,723	\$ 778,340
Investments (Note 2)	19,030,577	18,323,910
Contributions receivable - Net (Note 4)	393,842	441,137
Lease receivable from related party (Note 10)	24,175	26,345
Beneficial interest in trusts held by others (Note 6)	913,594	1,025,037
Cash surrender value of life insurance (Note 4)	271,287	250,223
Other assets	74,525	92,455
Net property and equipment (Note 5)	<u>10,010,618</u>	<u>11,204,572</u>
Total assets	<b><u>\$ 31,509,341</u></b>	<b><u>\$ 32,142,019</u></b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 24,906	\$ 91,682
Accrued real estate tax	67,860	70,490
Deposits held and due to others	205,942	191,063
Annuity payment liability (Note 6)	193,626	198,486
Note payable (Note 9)	<u>4,265,792</u>	<u>4,024,546</u>
Total liabilities	<u>4,758,126</u>	<u>4,576,267</u>
<b>Net Assets</b>		
Unrestricted	6,812,336	8,917,933
Temporarily restricted (Note 7)	9,215,495	8,338,042
Permanently restricted (Note 7)	<u>10,723,384</u>	<u>10,309,777</u>
Total net assets	<u>26,751,215</u>	<u>27,565,752</u>
Total liabilities and net assets	<b><u>\$ 31,509,341</u></b>	<b><u>\$ 32,142,019</u></b>

# Shawnee State University Development Foundation

## Statement of Activities Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue and Other Support</b>				
Contributions	\$ 102,801	\$ 658,668	\$ 378,353	\$ 1,139,822
Investment income - Net	31,629	1,363,612	-	1,395,241
Change in value of split-interest agreements	(133,216)	(30,511)	35,254	(128,473)
Rental income	418,381	-	-	418,381
Net assets released from restrictions	<u>1,891,002</u>	<u>(1,891,002)</u>	<u>-</u>	<u>-</u>
Total revenue and other support	2,310,597	100,767	413,607	2,824,971
<b>Expenses</b>				
Scholarships and other student aid	386,636	-	-	386,636
Institutional support	552,873	-	-	552,873
Guest speakers and lecturers	16,184	-	-	16,184
Management and general expenses	487,405	-	-	487,405
Rental expenses	<u>568,921</u>	<u>-</u>	<u>-</u>	<u>568,921</u>
Total expenses	2,012,019	-	-	2,012,019
<b>Losses</b>				
Loss on sale of assets	<u>1,627,489</u>	<u>-</u>	<u>-</u>	<u>1,627,489</u>
Total expenses and losses	<u>3,639,508</u>	<u>-</u>	<u>-</u>	<u>3,639,508</u>
<b>Change in Net Assets</b>	(1,328,911)	100,767	413,607	(814,537)
<b>Net Asset Transfer</b>	<u>(776,686)</u>	<u>776,686</u>	<u>-</u>	<u>-</u>
<b>Net Assets - Beginning of year</b>	<u>8,917,933</u>	<u>8,338,042</u>	<u>10,309,777</u>	<u>27,565,752</u>
<b>Net Assets - End of year</b>	<u>\$ 6,812,336</u>	<u>\$ 9,215,495</u>	<u>\$ 10,723,384</u>	<u>\$ 26,751,215</u>

# Shawnee State University Development Foundation

## Statement of Activities Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue and Other Support</b>				
Contributions	\$ 595,021	\$ 525,251	\$ 66,594	\$ 1,186,866
Investment income - Net	200,354	1,869,981	-	2,070,335
Change in value of split-interest agreements	47,292	14,574	48,640	110,506
Losses for uncollectible contributions	(5,085)	(5,057)	(5,000)	(15,142)
Rental income	426,903	-	-	426,903
Net assets released from restrictions	<u>1,849,737</u>	<u>(1,849,737)</u>	<u>-</u>	<u>-</u>
Total revenue and other support	3,114,222	555,012	110,234	3,779,468
<b>Expenses and Losses</b>				
Scholarships and other student aid	426,155	-	-	426,155
Institutional support	831,502	-	-	831,502
Guest speakers and lecturers	11,548	-	-	11,548
Management and general expenses	410,271	-	-	410,271
Rental expenses	<u>635,680</u>	<u>-</u>	<u>-</u>	<u>635,680</u>
Total expenses and losses	<u>2,315,156</u>	<u>-</u>	<u>-</u>	<u>2,315,156</u>
<b>Change in Net Assets</b>	799,066	555,012	110,234	1,464,312
<b>Net Assets - Beginning of year</b>	<u>8,118,867</u>	<u>7,783,030</u>	<u>10,199,543</u>	<u>26,101,440</u>
<b>Net Assets - End of year</b>	<u><b>\$ 8,917,933</b></u>	<u><b>\$ 8,338,042</b></u>	<u><b>\$ 10,309,777</b></u>	<u><b>\$ 27,565,752</b></u>

# Shawnee State University Development Foundation

## Statement of Cash Flows

	Year Ended	
	June 30, 2018	June 30, 2017
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ (814,537)	\$ 1,464,312
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	258,005	239,933
Amortization	2,315	2,151
Noncash property contributions	(84,425)	(193,565)
Realized and unrealized gains on investments	(1,077,139)	(1,833,679)
Contributions restricted for long-term purposes	(413,607)	(115,234)
Bad debt losses	-	15,142
Loss on sale of assets	1,627,489	-
Changes in assets and liabilities:		
Surrender value of life insurance	(21,064)	(22,556)
Funds held in trust by others	111,443	(72,162)
Contributions receivable	47,295	(188,156)
Lease receivable from related party	2,170	2,169
Other assets	27,586	(8,906)
Accounts payable and other accrued liabilities	(69,406)	62,943
Deferred revenue	-	(11,521)
Deposits held and due to others	14,879	30,742
Annuity payment liability	(4,860)	(47,043)
Net cash (used in) provided by operating activities	(393,856)	(675,430)
<b>Cash Flows from Investing Activities</b>		
Purchase of land, buildings, and equipment	(858,914)	(44,858)
Net proceeds from sale of assets	188,029	-
Proceeds from sales of investments	5,076,690	20,842,766
Purchases of investments	(4,654,419)	(19,730,212)
Net cash (used in) provided by investing activities	(248,614)	1,067,696
<b>Cash Flows from Financing Activities</b>		
Principal payments on note payable	(158,754)	(151,027)
Note proceeds	400,000	-
Contributions restricted for long-term purposes	413,607	115,234
Net cash provided by (used in) financing activities	654,853	(35,793)

# Shawnee State University Development Foundation

## Statement of Cash Flows (Continued)

	Year Ended	
	June 30, 2018	June 30, 2017
<b>Net Increase in Cash and Cash Equivalents</b>	\$ 12,383	\$ 356,473
<b>Cash and Cash Equivalents - Beginning of year</b>	<u>778,340</u>	<u>421,867</u>
<b>Cash and Cash Equivalents - End of year</b>	<u><b>\$ 790,723</b></u>	<u><b>\$ 778,340</b></u>
<b>Supplemental Disclosure of Cash Flow Information -</b>		
Cash paid during the year for interest	<u><b>\$ 215,041</b></u>	<u><b>\$ 205,349</b></u>
<b>Supplemental Disclosure of Noncash Activities</b>		
Donated property	\$ 41,965	\$ 193,565
Donated securities	42,460	2,982

# Shawnee State University Development Foundation

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## Notes to Financial Statements June 30, 2018 and 2017

### Note 1 - Summary of Significant Accounting and Reporting Policies

**Organization** - Shawnee State University Development Foundation (the "Foundation") was incorporated as a not-for-profit organization in the state of Ohio on November 4, 1987. The Foundation was formed to raise funds for the benefit of Shawnee State University (the "University"). The primary source of revenue for the Foundation is donor contributions. The Foundation is a legally separate entity from the University and maintains a self-appointing board of trustees.

**Basis of Accounting** - The financial statements of the Foundation have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

**Basis of Presentation** - The Foundation classifies net assets, revenue, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions.

**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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Cash and Cash Equivalents** - The Foundation considers all highly liquid investments available with an initial maturity of three months or less to be cash equivalents. Deposits in banks are insured by an agency of the federal government up to \$250,000. As of June 30, 2018 and 2017, the Foundation holds funds in excess of insured limits.

**Investments** - Investments are carried at fair value. Investments received as gifts are recorded at fair value at the date of gift. Realized investment gains and losses represent the difference between the proceeds on sales of investments and their cost when acquired. Investment return includes interest, dividends, and both realized and unrealized gains and losses. All realized and unrealized gains and losses on investments are reported as increases or decreases, respectively, to unrestricted net assets unless required by donors or state law to be reinvested with the corpus.

The Foundation operates a pooled investment portfolio for all funds. The investment return and investment fees for the portfolio are allocated monthly using a percentage of account balances.

# Shawnee State University Development Foundation

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## Notes to Financial Statements June 30, 2018 and 2017

### Note 1 - Summary of Significant Accounting and Reporting Policies (Continued)

**Gifts and Contributions** - Contributions received by the Foundation are recorded at fair value. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for a specific purpose are reported as temporarily restricted or permanently restricted support that increase those net asset classes.

When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions of land, buildings, and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenue of unrestricted net assets. Contributions of cash or other assets to be used to acquire land, buildings, and equipment with such donor stipulations are reported as revenue of temporarily restricted net assets. The restrictions are considered to be released at the time of acquisition of such long-lived assets.

Donations of real property are recorded as support and reported at their estimated fair value at the date of the gift. Such donations are reported as unrestricted support unless the donor has restricted the donated asset for a specific purpose.

**Pledges Receivable** - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Unconditional promises to give, which are silent as to the due date, are presumed to be time restricted by the donor until received and are reported as temporarily restricted net assets. Conditional promises to give are not included as support until the conditions on which they depend are substantially met.

**Intentions** - The Foundation receives communications from donors indicating that the Foundation has been included in the donors' wills or life insurance policies as a beneficiary, representing intentions to give rather than promises to give. Such communications are not unconditional promises to give because the donors retain the ability to modify their wills and insurance policies during their lifetimes. The total realizable value of these intended gifts has not been established, nor have the intended gifts been recognized as an asset or contribution revenue. Such gifts are recorded when the Foundation is notified of a donor's death, the will is declared valid by a probate court, and the proceeds are measurable.

# Shawnee State University Development Foundation

## Notes to Financial Statements June 30, 2018 and 2017

### Note 1 - Summary of Significant Accounting and Reporting Policies (Continued)

**Property and Equipment** - All acquisitions of property and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost. Donated property and equipment are carried at fair value at the date of the donation.

Depreciation is computed using the straight-line method over the useful life of the asset as follows:

Office equipment and furniture	5 years
Land improvements	15 years
Buildings	40 years

**Annuities Payable** - The fair value of annuities payable is actuarially determined based on the present value of the discounted estimated future cash flows using market interest rates and life expectancy tables.

**Net Assets** - The composition of net assets is as follows:

- **Unrestricted Net Assets** - Net assets that are not subject to donor-imposed stipulations.
- **Temporarily Restricted Net Assets** - Net assets subject to donor-imposed stipulations that may or will be met by either actions of the Foundation and/or the passage of time.
- **Permanently Restricted Net Assets** - Net assets subject to donor-imposed stipulations that the Foundation maintain the principal permanently. Generally, the donors of these assets permit the Foundation to use all of, or part of, the income earned on related investments for general or specific purposes.

**Federal Income Tax** - The Internal Revenue Service has ruled that the Foundation is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as a public charity described in Section 501(c)(3).

**Concentration of Credit Risk** - Financial instruments, which potentially subject the Foundation to a concentration of credit risk, consist principally of pledges receivable. Exposure to losses on pledges receivable is principally dependent on each donor's financial condition.

The Foundation monitors the exposure for credit losses and maintains allowances for anticipated losses on receivables.



# Shawnee State University Development Foundation

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## Notes to Financial Statements June 30, 2018 and 2017

### Note 1 - Summary of Significant Accounting and Reporting Policies (Continued)

Investments are recorded at fair value. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least possible that changes in the value of investment securities will occur in the near term and that such changes could significantly affect the Foundation's statements of net assets and activities.

**Functional Allocation of Expenses** - The costs of providing the various programs and support services have been summarized on a functional basis in the statement of activities. Certain costs have been allocated among the programs and support services benefitted. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts. Total fundraising expenses for the years ended June 30, 2018 and 2017 were \$43,475 and \$30,550, respectively. Program expenses on the statement of activities include scholarships and other student aid, institutional support, and guest speakers and lecturers. Support services on the statement of activities include management and general expenses and rental expenses.

**Upcoming Accounting Pronouncement** - In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU did not significantly change the accounting requirements for lessors, and accordingly, application of the new lease standard is not expected to have a significant effect on the Foundation's financial statements. The new lease guidance will be effective for the Foundation's year ending June 30, 2021.

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in August 2016. ASU 2016-14 requires significant changes to the financial reporting model of organizations who follow the FASB's not-for-profit rules, including changing from three classes of net assets to two classes, net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Foundation, including required disclosures about the liquidity and availability of resources. The Foundation is currently evaluating the impact of the standard and will present the two classes of net assets and add the liquidity footnote, expense matrix, and related disclosures. The new standard is effective for the Foundation's year ending June 30, 2019 and thereafter and must be applied on a retrospective basis.

# Shawnee State University Development Foundation

## Notes to Financial Statements June 30, 2018 and 2017

### Note 1 - Summary of Significant Accounting and Reporting Policies (Continued)

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance may delay revenue recognition for certain contributions that no longer meet the definition of unconditional. The new guidance will be effective for the Organization's year ending June 30, 2020 and will be applied on a modified prospective basis. The Organization has not yet determined the impact on recognition of foundation and individual grants and contributions.

**Subsequent Events** - The financial statements and related disclosures include evaluation of events up through and including October 8, 2018, which is the date that the financial statements were available to be issued.

**Net Asset Transfer** – Due to changes in donor restrictions a net asset transfer was made from unrestricted net assets to temporarily restricted net assets in the amount of \$776,686.

### Note 2 - Investments

The fair value of investments held by the Foundation at June 30, 2018 and 2017 is summarized as follows:

	2018	2017
U.S. government securities	\$ 1,498,544	\$ 1,794,111
Foreign bond issues	210,497	171,720
Mutual funds:		
Equity	12,950,907	12,462,337
Fixed income	3,214,381	2,960,123
Corporate bond issues	1,156,248	935,619
Total	\$ 19,030,577	\$ 18,323,910

# Shawnee State University Development Foundation

## Notes to Financial Statements June 30, 2018 and 2017

### Note 3 - Fair Value Measurements

Investment income for the fiscal years ended June 30, 2018 and 2017 is composed of the following:

	2018	2017
Interest and dividends	\$ 381,728	\$ 273,810
Investment fees	(63,626)	(37,154)
Net realized and unrealized losses on investments	1,077,139	1,833,679
Total	\$ 1,395,241	\$ 2,070,335

Accounting principles generally accepted in the United States of America define fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Foundation's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

Generally accepted accounting principles establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are as follows:

**Level 1** - Inputs that reflect unadjusted quoted prices in active markets for identical assets that the Foundation has the ability to access. Prices for these investments are widely available through major financial reporting services.

**Level 2** - Inputs other than quoted prices that are observable, either directly or indirectly. These may include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

**Level 3** - Inputs that are unobservable, including inputs that are available in situations where there is little, if any, market activity for the related asset. Often, these assets trade infrequently or not at all. These values are generally determined using pricing models for which assumptions utilize management's estimates of market participant assumptions.

# Shawnee State University Development Foundation

## Notes to Financial Statements June 30, 2018 and 2017

### Note 3 - Fair Value Measurements (Continued)

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Foundation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

#### Assets Measured at Fair Value on a Recurring Basis at June 30, 2018

Assets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2018
U.S. government securities	\$ 1,498,544	\$ -	\$ -	\$ 1,498,544
Mutual funds:				
Equity	12,950,907	-	-	12,950,907
Fixed income	3,214,381	-	-	3,214,381
Foreign bond issues	-	210,497	-	210,497
Corporate bond issues	-	1,156,248	-	1,156,248
Beneficial interest in trusts	-	-	913,594	913,594
Total assets	<u>\$ 17,663,832</u>	<u>\$ 1,366,745</u>	<u>\$ 913,594</u>	<u>\$ 19,944,171</u>

# Shawnee State University Development Foundation

## Notes to Financial Statements June 30, 2018 and 2017

### Assets Measured at Fair Value on a Recurring Basis at June 30, 2017

Assets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2017
U.S. government securities	\$ 1,794,111	\$ -	\$ -	\$ 1,794,111
Mutual funds:				
Equity	12,462,337	-	-	12,462,337
Fixed income	2,960,123	-	-	2,960,123
Foreign bond issues	-	171,720	-	171,720
Corporate bond issues	-	935,619	-	935,619
Beneficial interest in trusts	-	-	1,025,037	1,025,037
Total assets	\$ 17,216,571	\$ 1,107,339	\$ 1,025,037	\$ 19,348,947

# Shawnee State University Development Foundation

## Notes to Financial Statements June 30, 2018 and 2017

### Note 3 - Fair Value Measurements (Continued)

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) are as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) for Beneficial Interest	
July 1, 2017	\$	1,025,037
Change in value of split-interest trusts		(111,443)
June 30, 2018	\$	913,594
July 1, 2016	\$	952,875
Change in value of split-interest trusts		72,162
June 30, 2017	\$	1,025,037

### Quantitative Information about Level 3 Fair Value Measurements

The following table summarizes the valuation methods and inputs used to determine fair value at June 30, 2018 and 2017 for assets measured at fair value on a recurring basis using unobservable inputs (Level 3 inputs):

	Fair Value at June 30, 2018	Fair Value at June 30, 2017	Valuation Technique	Significant Unobservable Inputs Used	Range
Assets - Beneficial interests in trusts	\$ 913,594	\$ 1,025,037	Present value of future distributions to be received, IRS published tables	Life expectancy of beneficiaries	3-6 years and discount rates ranged from 4.4% to 7.6%

Unrealized gains and losses generated from Level 3 beneficial interests in trusts still held at June 30, 2018 and 2017 and reported in the Foundation's statements of activities were (\$111,443) and \$72,162, respectively.

# Shawnee State University Development Foundation

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## Notes to Financial Statements June 30, 2018 and 2017

### Note 3 - Fair Value Measurements (Continued)

The fair values of U.S. government securities, mutual funds, and common stock investments that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs). The fair value of Level 2 corporate bond investments is determined utilizing quoted market prices of similar securities with similar due dates.

The fair value of the beneficial interests in trusts held by others is based on quoted prices of the underlying assets that were held by the trustees in conjunction with a valuation model that calculated the present value of estimated distributed income. There are restrictions on these assets that do not allow the Foundation's redemption rights. These assets are valued using the market approach with Level 3 inputs.

The Foundation's policy is to recognize transfers between levels of the fair value hierarchy as of the beginning of the reporting period. For the fiscal years ended June 30, 2018 and June 30, 2017, there were no transfers between levels of the fair value hierarchy.

### Note 4 - Contributions Receivable and Other Assets

Unconditional promises due within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be received in more than one year are discounted using a discount rate equal to the Moody AAA Bond rate at the date of gift. The discount rates for June 30, 2018 and 2017 range from 3.25 percent to 7.57 percent.

Gross pledges at June 30, 2018 and 2017 were \$473,296 and \$492,516, respectively. The present value of the discount associated with these pledges at June 30, 2018 and 2017 was \$54,862 and \$33,913, respectively.

# Shawnee State University Development Foundation

## Notes to Financial Statements June 30, 2018 and 2017

### Note 4 - Contributions Receivable and Other Assets (Continued)

Unconditional promises to give are expected to be realized in the following periods at June 30:

	2018	2017
Less than one year	\$ 120,784	\$ 186,827
One to five years	253,991	256,004
Over five years	43,659	15,772
Total contributions receivable	418,434	458,603
Less allowance for uncollectible pledges	(24,592)	(17,466)
Net contributions receivable	\$ 393,842	\$ 441,137

All unconditional promises to give are considered collectible until determined otherwise by management. Promises to give that are deemed uncollectible are written off as bad debt expense.

Management provides for probable uncollectible amounts through a provision for bad debt expense by evaluating the collectability of each pledge.

The Foundation received conditional promises to give totaling approximately \$7,355,000 as of June 30, 2018 that have not been recognized as assets in the statement of net assets. These gifts are primarily in the form of bequests and insurance pledges, which are deemed conditional due to their revocable nature.

Contributions receivable from related parties totaled approximately \$58,000 and \$70,000 at June 30, 2018 and 2017, respectively. Related party contribution revenue recognized for the years ended June 30, 2018 and 2017 totaled \$27,907 and \$3,820, respectively.

As of June 30, 2018 and 2017, the Foundation had cash surrender value of insurance policies of \$271,287 and \$250,223, respectively. The face values of these policies as of June 30, 2018 and 2017 were \$1,561,330 and \$1,561,095, respectively, and are not reflected in the statements of net assets.



# Shawnee State University Development Foundation

## Notes to Financial Statements June 30, 2018 and 2017

### Note 5 - Property and Equipment

Property and equipment consist of the following:

	2018	2017
Land	\$ 2,011,200	\$ 2,248,769
Equipment and furniture	23,583	13,938
Buildings	8,843,646	9,717,077
Construction in progress	10,500	-
Total property and equipment	10,888,929	11,979,784
Accumulated depreciation	878,311	775,212
Net property and equipment	\$ 10,010,618	\$ 11,204,572

The total depreciation expense was \$258,005 and \$239,933 for the years ended June 30, 2018 and 2017, respectively.

On June 14, 2018, the Foundation sold property located at 321-327 Third Street for \$200,000 and recorded a loss on the sale of these assets in the amount of \$1,591,611.

### Note 6 - Split-interest Agreements

**Charitable Remainder Trusts** - The Foundation has been named a charitable remainder beneficiary in various charitable remainder trusts administered by an outside trustee. These trusts provide, among other matters, that the trustee shall pay to beneficiaries periodic payments until either the assets of the trust have been exhausted or the death of the beneficiaries. Upon death of the beneficiaries, the Foundation's designated share of all property in the trust will be transferred to the Foundation in accordance with the agreements.

The portion of the trust attributable to the present value of the future benefits to be received by the Foundation is recorded in the statements of net assets. The Foundation's share of assets held in the charitable remainder trusts totaled \$913,594 and \$1,025,037 at June 30, 2018 and 2017, respectively, and is reported at fair value in the Foundation's statements of net assets.

# Shawnee State University Development Foundation

## Notes to Financial Statements June 30, 2018 and 2017

### Note 6 - Split-interest Agreements (Continued)

**Charitable Gift Annuities** - Under charitable gift annuity agreements, all assets are held by the Foundation. Therefore, the Foundation has recorded the donated assets at fair value and the liabilities to the donor or his/her beneficiaries discounted to the present value of the estimated future payments to be distributed by the Foundation to such individuals. The amount of the contribution is the difference between the asset and liability and is recorded as contribution revenue. On an annual basis, the Foundation revalues the liabilities to make distributions to the designated beneficiaries based on actuarial assumptions. The present values of the estimated future payments at June 30, 2018 and 2017 are \$193,626 and \$198,486, respectively. These amounts are recognized as a liability in the Foundation's statements of net assets.

### Note 7 - Restricted Net Assets

Temporarily and permanently restricted net assets at June 30, 2018 are restricted for the following purposes:

#### Temporarily and Permanently Restricted Net Assets at June 30, 2018

	Temporarily Restricted	Permanently Restricted
Scholarships and student aid	\$ 1,943,717	\$ 4,363,630
Irrevocable charitable trusts	776,686	136,908
University facilities and programs	6,495,092	6,222,846
Total	<u>\$ 9,215,495</u>	<u>\$ 10,723,384</u>

# Shawnee State University Development Foundation

## Notes to Financial Statements June 30, 2018 and 2017

### Note 7 - Restricted Net Assets (Continued)

Temporarily and permanently restricted net assets at June 30, 2017 are restricted for the following purposes:

#### Temporarily and Permanently Restricted Net Assets at June 30, 2017

	Temporarily Restricted	Permanently Restricted
Scholarships and student aid	\$ 1,715,174	\$ 4,103,611
Irrevocable charitable trusts	132,274	131,793
University facilities and programs	6,490,594	6,074,373
Total	<u>\$ 8,338,042</u>	<u>\$ 10,309,777</u>

During the years ended June 30, 2018 and 2017, \$1,891,002 and \$1,849,737, respectively, was released from restrictions.

### Note 8 - Rental Income

The Foundation has two buildings subject to two lease agreements, one with the University, and one with a third party. The Foundation had one additional building lease agreement with a third party during the fiscal year. This building was sold prior to year end to the lessee.

The lease with the University was renewed with lease terms effective August 18, 2014 through August 17, 2029.

One third-party lease was entered into on July 1, 2017 for the term beginning July 1, 2017 and ending on June 30, 2019 at an annual rental rate of \$321,941. The second third-party lease was entered into on November 21, 2016 for the period beginning November 21, 2016 and ended on November 20, 2017.

# Shawnee State University Development Foundation

## Notes to Financial Statements June 30, 2018 and 2017

### Note 8 - Rental Income (Continued)

The following is a schedule by years of future minimum rentals required under the leases at June 30, 2018:

Years Ending	
June 30	Amount
2019	\$ 409,551
2020	87,610
2021	87,610
2022	87,610
2023	87,610
Thereafter	<u>525,660</u>
Total	<u>\$ 1,285,651</u>

### Note 9 - Note Payable

The Foundation entered into a \$4,500,000 note with an interest rate of 5 percent payable to Hatcher Real Estate, LLC for the purchase of property known as the Fourth Street Properties. The note is secured by the land and buildings. This note is payable in monthly installments of \$29,698. The payments are based on a 20-year amortization schedule and include a balloon payment due at maturity on February 25, 2019 for the remaining balance. The Foundation will have an option to extend the maturity date for a two-year period; however, payments will continue during that time. At June 30, 2018 and 2017 the outstanding principal balance of the note was \$3,865,792 and \$4,024,546, respectively.

On August 17, 2017, the Foundation entered into a \$400,000 note with an interest rate of 5 percent payable to Burg DMI, LLC to purchase property at 221 Chillicothe Street. The note is secured by the land and building. This note requires monthly interest only payments for forty-eight months with the total principal balance due no later than August 17, 2021. At June 30, 2018 the outstanding principal balance on the note was \$400,000.

# Shawnee State University Development Foundation

## Notes to Financial Statements June 30, 2018 and 2017

### Note 9 - Note Payable (Continued)

Maturities of the notes payable at June 30, 2018 are set forth in the following schedule:

Years Ending	
June 30	Amount
2019	\$ 166,876
2020	175,414
2021	184,389
2022	593,822
2023	203,739
Therafter	<u>2,941,552</u>
Total	<u>\$ 4,265,792</u>

### Note 10 - Transactions with Shawnee State University

The Foundation made distributions to, or on behalf of, the University of \$1,053,123 during the year ended June 30, 2018 and \$1,341,063 during the year ended June 30, 2017. Administrative expenses of \$389,975 in fiscal year 2018 and \$338,413 in fiscal year 2017 were reimbursed to Shawnee State University for direct costs, including an allocation of salary and benefits, incurred in the management of the Foundation's and University's endowment funds.

The Foundation leases building space to Shawnee State University for the use of educational facilities. The outstanding lease due under this arrangement was \$24,175 and \$26,345 as of June 30, 2018 and 2017, respectively, and is reflected as a lease receivable in the Foundation's statements of net assets.

### Note 11 - Endowment Composition

The Foundation's endowment includes both donor-restricted endowment funds and unrestricted funds that function as endowments. As required by applicable standards, net assets associated with endowment funds, including unrestricted funds functioning as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

# Shawnee State University Development Foundation

## Notes to Financial Statements June 30, 2018 and 2017

### Note 11 - Endowment Composition (Continued)

Endowment net asset composition by type of fund as of June 30, 2018 is as follows:

#### Endowment Net Asset Composition by Type of Fund as of June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (45,076)	\$ 4,087,399	\$ 10,723,384	\$ 14,765,707
Funds functioning as endowments	568,571	-	-	568,571
Total funds	<u>\$ 523,495</u>	<u>\$ 4,087,399</u>	<u>\$ 10,723,384</u>	<u>\$ 15,334,278</u>

Changes in endowment net assets for the year ended June 30, 2018 are as follows:

#### Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets - Beginning of year	\$ 470,929	\$ 3,696,840	\$ 10,309,777	\$ 14,477,546
Investment return	56,720	1,056,516	-	1,113,236
Transfer for underwater investments	35,984	(35,984)	-	-
Total investment return	563,633	4,717,372	10,309,777	15,590,782
Contributions	-	-	413,607	413,607
Appropriation of endowment assets for expenditure	(40,138)	(629,973)	-	(670,111)
Net assets - End of year	<u>\$ 523,495</u>	<u>\$ 4,087,399</u>	<u>\$ 10,723,384</u>	<u>\$ 15,334,278</u>

# Shawnee State University Development Foundation

## Notes to Financial Statements June 30, 2018 and 2017

### Note 11 - Endowment Composition (Continued)

Endowment net asset composition by type of fund as of June 30, 2017 is as follows:

#### Endowment Net Asset Composition by Type of Fund as of June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (43,742)	\$ 3,696,840	\$ 10,309,777	\$ 13,962,875
Funds functioning as endowments	<u>514,671</u>	<u>-</u>	<u>-</u>	<u>514,671</u>
Total funds	<u>\$ 470,929</u>	<u>\$ 3,696,840</u>	<u>\$ 10,309,777</u>	<u>\$ 14,477,546</u>

Changes in endowment net assets for the year ended June 30, 2017 are as follows:

#### Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets - Beginning of year	\$ 331,292	\$ 2,853,761	\$ 10,199,543	\$ 13,384,596
Investment return	81,677	1,494,328	-	1,576,005
Transfer for underwater investments	<u>95,212</u>	<u>(95,212)</u>	<u>-</u>	<u>-</u>
Total investment return	508,181	4,252,877	10,199,543	14,960,601
Contributions	-	-	110,234	110,234
Appropriation of endowment assets for expenditure	<u>(37,252)</u>	<u>(556,037)</u>	<u>-</u>	<u>(593,289)</u>
Net assets - End of year	<u>\$ 470,929</u>	<u>\$ 3,696,840</u>	<u>\$ 10,309,777</u>	<u>\$ 14,477,546</u>

The Foundation released certain board-designated assets that were considered funds functioning as endowments.

# Shawnee State University Development Foundation

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## Notes to Financial Statements June 30, 2018 and 2017

### Note 11 - Endowment Composition (Continued)

**Interpretation of UPMIFA** - The Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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 Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Foundation and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation



# Shawnee State University Development Foundation

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## Notes to Financial Statements June 30, 2018 and 2017

### Note 11 - Endowment Composition (Continued)

**Return Objectives, Risk Parameters, and Strategies** - The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period as well as funds functioning as endowments. Under this policy, as approved by the board of trustees, the endowment assets are invested in a manner that is intended to achieve an after cost total real rate of return, including investment income as well as a capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5 percent, while growing the funds if possible. Investment risk is measured in terms of the total endowment funds; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

**Spending Policy and how the Investment Objectives Relate to Spending Policy** - The Foundation has a policy of only spending the earnings, including appreciation, of the endowment fund. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

**Funds with Deficiencies** - 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 UPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature that are in excess of related temporarily restricted amounts are reported in unrestricted net assets. Such amounts totaled \$49,477 and \$85,460 as of June 30, 2018 and 2017, respectively. These deficiencies resulted from unfavorable market fluctuations.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

**Independent Auditor's Report**

To Management and the Board of Trustees  
Shawnee State University Development Foundation

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Shawnee State University Development Foundation (the "Foundation"), which comprise the statement of net assets as of June 30, 2018 and 2017 and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Foundation's financial statements, and have issued our report thereon dated October 8, 2018.

**Internal Control Over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Foundation's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

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

To Management and the Board of Trustees  
Shawnee State University Development Foundation

**Purpose of this Report**

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

*Plante & Moran, PLLC*

October 8, 2018



# Dave Yost • Auditor of State

**SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION**

**SCIOTO COUNTY**

## **CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
NOVEMBER 27, 2018**