

Shawnee State University Development Foundation

**Financial Report
June 30, 2019**

OHIO AUDITOR OF STATE
KEITH FABER



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Board of Trustees
Shawnee State University Development Foundation
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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, 2018 through June 30, 2019. 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 cursive script that reads 'Keith Faber'.

Keith Faber
Auditor of State
Columbus, Ohio

November 13, 2019

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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, 2019 and 2018 and the related statements of activities, cash flows, and functional expenses 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 opinion.

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, 2019 and 2018 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements for the year ended June 30, 2018 have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

As described in Note 1 to the financial statements, the Foundation adopted the provisions of Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, for the year ended June 30, 2019, applied retrospectively to all years presented. Our opinion is not modified with respect to this matter.

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 9, 2019 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 9, 2019

Shawnee State University Development Foundation

Statement of Net Assets

	June 30, 2019	June 30, 2018
Assets		
Cash and cash equivalents	\$ 833,833	\$ 790,723
Investments (Note 3)	18,743,975	19,030,577
Contributions receivable - Net (Note 5)	330,684	393,842
Lease receivable from related party (Note 12)	22,006	24,175
Grant receivable (Note 5)	196,914	-
Other receivable	36,353	-
Beneficial interest in trusts held by others (Note 7)	796,980	913,594
Cash surrender value of life insurance (Note 5)	277,702	271,287
Other assets	72,590	74,525
Net property and equipment (Note 6)	9,962,366	10,010,618
	<u>\$ 31,273,403</u>	<u>\$ 31,509,341</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 14,823	\$ 24,906
Accrued real estate tax	15,597	67,860
Grant payable	196,914	-
Other payable	20,000	-
Deposits held and due to others	6,822	205,942
Annuity payment liability (Note 7)	239,263	193,626
Note payable (Note 11)	3,948,916	4,265,792
	<u>4,442,335</u>	<u>4,758,126</u>
Total liabilities		
Net Assets		
Without Donor Restrictions (Note 8)	8,052,310	7,942,983
With Donor Restrictions (Note 9)	18,778,758	18,808,232
	<u>26,831,068</u>	<u>26,751,215</u>
Total net assets		
Total liabilities and net assets	<u>\$ 31,273,403</u>	<u>\$ 31,509,341</u>

Shawnee State University Development Foundation

Statement of Activities Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Other Support			
Contributions	\$ 178,218	\$ 661,202	\$ 839,420
Investment income - Net	123,365	965,373	1,088,738
Change in value of split-interest agreements	-	(162,251)	(162,251)
Federal grant revenue	-	396,733	396,733
Other income	-	61,340	61,340
Rental income	407,381	-	407,381
Net assets released from restrictions	1,951,871	(1,951,871)	-
Total revenue and other support	2,660,835	(29,474)	2,631,361
Expenses			
Program services:			
Scholarships and other student aid	658,960	-	658,960
Institutional support	937,583	-	937,583
Total program services	1,596,543	-	1,596,543
Management and general expenses	243,354	-	243,354
Rental activities	518,643	-	518,643
Fundraising	192,968	-	192,968
Total expenses	2,551,508	-	2,551,508
Change in Net Assets	109,327	(29,474)	79,853
Net Assets - Beginning of year, as restated	7,942,983	18,808,232	26,751,215
Net Assets - End of year	\$ 8,052,310	\$ 18,778,758	\$ 26,831,068

Shawnee State University Development Foundation

Statement of Activities Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Other Support			
Contributions	\$ 104,301	\$ 1,035,521	\$ 1,139,822
Investment income - Net	96,953	1,298,288	1,395,241
Change in value of split-interest agreements	(133,551)	5,078	(128,473)
Rental income	418,381	-	418,381
Net assets released from restrictions	<u>1,800,988</u>	<u>(1,800,988)</u>	<u>-</u>
Total revenue and other support	2,287,072	537,899	2,824,971
Expenses			
Program services:			
Scholarships and other student aid	480,038	-	480,038
Institutional support	<u>525,582</u>	<u>-</u>	<u>525,582</u>
Total program services	1,005,620	-	1,005,620
Management and general expenses	267,087	-	267,087
Rental activities	568,920	-	568,920
Fundraising	<u>170,392</u>	<u>-</u>	<u>170,392</u>
Total expenses	<u>2,012,019</u>	<u>-</u>	<u>2,012,019</u>
Losses			
Loss on sale of assets	<u>1,627,489</u>	<u>-</u>	<u>1,627,489</u>
Total expenses and losses	<u>3,639,508</u>	<u>-</u>	<u>3,639,508</u>
Change in Net Assets	(1,352,436)	537,899	(814,537)
Net Asset Transfer	<u>(776,686)</u>	<u>776,686</u>	<u>-</u>
Net Assets - Beginning of year, as restated	<u>10,072,105</u>	<u>17,493,647</u>	<u>27,565,752</u>
Net Assets - End of year, as restated	<u>\$ 7,942,983</u>	<u>\$ 18,808,232</u>	<u>\$ 26,751,215</u>

Shawnee State University Development Foundation

Statement of Cash Flows

	Year Ended	
	June 30, 2019	June 30, 2018
Cash Flows from Operating Activities		
Change in net assets	\$ 79,853	\$ (814,537)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	228,259	258,005
Amortization	1,935	2,315
Noncash property contributions	(43,524)	(84,425)
Realized and unrealized gains on investments	(770,079)	(1,077,139)
Contributions restricted for long-term purposes	(240,868)	(413,607)
Loss on sale of assets	-	1,627,489
Changes in assets and liabilities:		
Surrender value of life insurance	(6,415)	(21,064)
Funds held in trust by others	116,614	111,443
Contributions receivable	63,158	47,295
Grants receivable	(196,914)	-
Other receivable	(36,353)	-
Lease receivable from related party	2,169	2,170
Other assets	1,935	27,586
Accounts payable and other accrued liabilities	154,568	(69,406)
Deposits held and due to others	(199,120)	14,879
Annuity payment liability	45,637	(4,860)
Net cash (used in) provided by operating activities	(799,145)	(393,856)
Cash Flows from Investing Activities		
Purchase of land, buildings, and equipment	(177,786)	(858,914)
Net proceeds from sale of assets	-	188,029
Proceeds from sales of investments	6,499,837	5,076,690
Purchases of investments	(5,403,788)	(4,654,419)
Net cash (used in) provided by investing activities	918,263	(248,614)
Cash Flows from Financing Activities		
Principal payments on note payable	(316,876)	(158,754)
Note proceeds	-	400,000
Contributions restricted for long-term purposes	240,868	413,607
Net cash provided by (used in) financing activities	(76,008)	654,853

Shawnee State University Development Foundation

Statement of Cash Flows (Continued)

	Year Ended	
	June 30, 2019	June 30, 2018
Net Increase in Cash and Cash Equivalents	\$ 43,110	\$ 12,383
Cash and Cash Equivalents - Beginning of year	<u>790,723</u>	<u>778,340</u>
Cash and Cash Equivalents - End of year	<u>\$ 833,833</u>	<u>\$ 790,723</u>
Supplemental Disclosure of Cash Flow Information -		
Cash paid during the year for interest	<u>\$ 208,875</u>	<u>\$ 215,041</u>
Supplemental Disclosure of Noncash Activities		
Donated property	\$ 27,075	\$ 41,965
Donated securities	16,449	42,460

Shawnee State University Development Foundation

Statement of Functional Expenses Year Ended June 30, 2019

	Scholarships and Other Student Aid	Institutional Support	Management and General	Rental Activities	Fundraising	Total
Salaries and benefits	\$ 82,006	\$ -	\$ 71,939	\$ -	\$ 161,286	\$ 315,231
Payments to the University	-	523,707	-	-	-	523,707
Student awards and grants	576,954	-	-	-	-	576,954
Pass through grants	-	396,733	-	-	-	396,733
Guest speakers	-	17,143	-	-	-	17,143
Materials and supplies	-	-	-	-	31,682	31,682
Professional services	-	-	37,568	-	-	37,568
Service charges	-	-	2,441	-	-	2,441
Repairs and maintenance	-	-	58,874	105,482	-	164,356
Interest expense	-	-	-	208,875	-	208,875
Other general and administrative	-	-	46,624	-	-	46,624
Depreciation and amortization	-	-	25,908	204,286	-	230,194
	<u>\$ 658,960</u>	<u>\$ 937,583</u>	<u>\$ 243,354</u>	<u>\$ 518,643</u>	<u>\$ 192,968</u>	<u>\$ 2,551,508</u>

Shawnee State University Development Foundation

Statement of Functional Expenses Year Ended June 30, 2018

	Scholarships and Other Student Aid	Institutional Support	Management and General	Rental Activities	Fundraising	Total
Salaries and benefits	\$ 93,402	\$ -	\$ 124,013	\$ -	\$ 125,258	\$ 342,673
Payments to the University	-	509,398	-	-	-	509,398
Student awards and grants	386,636	-	-	-	-	386,636
Guest speakers	-	16,184	-	-	-	16,184
Materials and supplies	-	-	-	-	43,475	43,475
Professional services	-	-	33,568	-	1,659	35,227
Service charges	-	-	1,659	-	-	1,659
Repairs and maintenance	-	-	29,043	126,721	-	155,764
Interest expense	-	-	-	215,041	-	215,041
Other general and administrative	-	-	45,643	-	-	45,643
Depreciation and amortization	-	-	33,161	227,158	-	260,319
	<u>\$ 480,038</u>	<u>\$ 525,582</u>	<u>\$ 267,087</u>	<u>\$ 568,920</u>	<u>\$ 170,392</u>	<u>\$ 2,012,019</u>

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2019 and 2018

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, 2019 and 2018, 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

Notes to Financial Statements
June 30, 2019 and 2018

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 donor restricted support and increase net asset with donor restrictions.

When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restricted 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 net assets without donor restrictions. Contributions of cash or other assets to be used to acquire land, buildings, and equipment with such donor stipulations are reported as revenue of net assets with donor restrictions. 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 support without donor restrictions 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 net assets with donor restrictions. 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, 2019 and 2018

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

Property and Equipment - All acquisitions of property and equipment in excess of \$1,000 through June 26, 2019 and \$10,000 thereafter, 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:

Buildings	40 years
Building Improvements	15-20 years
Furniture and Fixtures	5-20 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 financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

- **Net assets without donor restrictions** – Net assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets are the broad limits resulting for the nature of the Foundation, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.
- **Net assets with donor restrictions** – Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the Foundation must continue to use the resources in accordance with the donor's instructions.

An organization's unspent contributions are included in this class if the donor limited their use.

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2019 and 2018

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

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions. Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as net assets with donor restrictions until the specified asset is placed in service by the Foundation, unless the donor provides more specific directions about the period of its use.

Classification of Transactions – All revenues and net gains are reported as increases in net assets without donor restrictions in the statement of activities unless the donor specified the use of the related resources for a particular purpose or in a future period. All expenses and net losses other than losses on endowment investments are reported as decreases in net assets without donor restrictions. Net gains on endowment investments increase net assets with donor restrictions, and net losses on endowment investments reduce that net asset class.

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.

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.

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2019 and 2018

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

Federal Grant Revenue - Grant revenue is recognized when the qualifying costs are incurred for cost-reimbursement grants or contracts.

Functional Allocation of Expense - The cost of providing the Foundation's programs and other activities is summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited using a reasonable allocation method that is consistently applied, as follows:

- Salaries and wages, benefits and payroll taxes are allocated based on activity reports prepared by key personnel.

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Foundation.

Certain reclassifications of functional expenses for the year ended June 30, 2018 were made for consistency of reporting with the year ended June 30, 2019.

Adoption of New Accounting Pronouncement and Correction of Errors – As of June 30, 2019, the Foundation adopted Accounting Standards Update (ASU) No. 2016-14 *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*. This standard requires net assets to be classified in two categories, net assets without donor restrictions and net assets with donor restrictions, rather than the three previous classifications. In addition, the underwater portion of donor-restricted endowments is now reported as net assets with donor restrictions. This standard also requires changes in the way certain information is aggregated and reported by the Foundation, including disclosures of quantitative and qualitative information about the liquidity and availability of resources and the presentation of expenses by both functional and natural classification. The standard also clarifies the definition of management and general and prohibits certain expenses from being allocated out of management and general. As a result of the adoption of this standard, the financial information as of June 30, 2018 and July 1, 2017 have been restated.

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2019 and 2018

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

It was also identified that certain quasi-endowment funds and other funds without donor restrictions were erroneously reported in the temporarily and permanently net asset. As such, net assets at July 1, 2017 and June 30, 2018 have been restated to correct such errors.

The correction of errors and adoption of ASU 2016-14 had the following effect on net assets at July 1, 2017:

Net Asset Class	As Originally Presented at July 1, 2017	Corrections of Errors	As Corrected	As a Result of ASU 2016-14	Restated July 1, 2017 After Adoption of ASU 2016-14
Unrestricted Net Assets	\$ 8,917,933	\$ 1,068,712	\$ 9,986,645	\$ (9,986,645)	\$ -
Temporarily Restricted Net Assets	8,338,042	(889,433)	7,448,609	(7,448,609)	-
Permanently Restricted Net Asset	10,309,777	(179,279)	10,130,498	(10,130,498)	-
Net Assets Without Donor Restrictions	-	-	-	10,072,105	10,072,105
Net Assets With Donor Restrictions	-	-	-	17,493,647	17,493,647
Total	\$ 27,565,752	\$ -	\$ 27,565,752	\$ -	\$ 27,565,752

The correction of errors and adoption of ASU 2016-14 had the following effect on net assets at June 30, 2018:

Net Asset Class	As Originally Presented at June 30, 2018	Corrections of Errors	As Corrected	As a Result of ASU 2016-14	Restated June 30, 2018 After Adoption of ASU 2016-14
Unrestricted Net Assets	\$ 6,812,336	\$ 1,081,170	\$ 7,893,506	\$ (7,893,506)	\$ -
Temporarily Restricted Net Assets	9,215,495	(901,891)	8,313,604	(8,313,604)	-
Permanently Restricted Net Asset	10,723,384	(179,279)	10,544,105	(10,544,105)	-
Net Assets Without Donor Restrictions	-	-	-	7,942,983	7,942,983
Net Assets With Donor Restrictions	-	-	-	18,808,232	18,808,232
Total	\$ 26,751,215	\$ -	\$ 26,751,215	\$ -	\$ 26,751,215

As part of the adoption of ASU 2016-14, underwater endowments of \$85,460 and \$49,477 as of July 1, 2017 and June 30, 2018, respectively, were reclassified from net assets without donor restrictions to net assets with donor restrictions

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.

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2019 and 2018

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

The new lease guidance will be effective for the Foundation's year ending June 30, 2021 and will be applied using a modified retrospective transition method to either the beginning of the earliest period presented or the beginning of the year of adoption.

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 Foundation's year ending June 30, 2020 and will be applied on a modified prospective basis. The Foundation has not yet determined the impact on recognition of foundation and individual grants and contributions.

Net Asset Transfer – Due to changes in donor restrictions a net asset transfer was made from without donor restricted net assets to with donor restricted net assets in the amount of \$776,686 for the year ended June 30, 2018.

Subsequent Events – On August 23, 2019, the Foundation entered into a third-party lease agreement for the term beginning August 23, 2019 and ending on February 23, 2020 at a monthly rental rate of \$300.

The financial statements and related disclosures include evaluation of events up through and including October 9, 2019, which is the date that the financial statements were available to be issued.

Note 2 – Liquidity and Availability

The following reflects the Foundation's financial assets as of June 30, 2019 and 2018, reduced by amounts not available for general use because of donor-imposed restrictions within one year of the balance sheet date. Amounts not available include amounts set aside for long-term investing in the board designated endowment that could be drawn upon if the governing board approves that action. However, amounts already appropriated from either the donor-restricted endowment or board designated endowment for general expenditure within one year of the balance sheet have not been subtracted as unavailable.

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2019 and 2018

Note 2 – Liquidity and Availability (Continued)

	<u>2019</u>	<u>2018</u>
Financial assets:		
Cash and cash equivalents	\$ 833,833	\$ 790,723
Investments	18,743,975	19,030,577
Contributions receivable	330,684	393,842
Lease receivable	22,006	24,175
Total financial assets at year end	<u>19,930,498</u>	<u>20,239,317</u>
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Restricted by donor with implied time restrictions - pledges collectible in one or more years	(208,515)	\$ (273,058)
Restricted by donors with time or purpose restrictions	(2,613,253)	(2,891,075)
Subject to appropriation and satisfaction of donor restrictions	(14,971,772)	(14,582,028)
Board designations:		
Board designated endowment funds	(1,627,789)	(1,664,741)
Board designated funds	<u>(449,449)</u>	<u>(428,448)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 59,720</u>	<u>\$ 399,967</u>

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2019 and 2018

Note 2 – Liquidity and Availability (Continued)

The Foundation is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Foundation must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the Foundation's liquidity management, the Foundation structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition to the Foundation's cash, the Foundation holds short term cash investments that will, under normal circumstances, only be considered as temporary portfolio holdings, and will be used for Fund liquidity. Additionally, the Foundation has contributions, grants, lease, and other receivables that are expected to be collected within one year. The contributions receivable are subject to implied time restrictions but are expected to be collected within one year. In the event of an unanticipated liquidity need, the Foundation also could draw upon its quasi-endowment funds with board approval.

Note 3 - Investments

The fair value of investments held by the Foundation at June 30, 2019 and 2018 is summarized as follows:

	2019	2018
U.S. government securities	\$ 1,418,127	\$ 1,498,544
Foreign bond issues	319,341	210,497
Mutual funds:		
Equity	12,683,140	12,950,907
Fixed income	3,111,036	3,214,381
Corporate bond issues	1,163,767	1,156,248
Limited Partnership	48,564	-
Total	<u>\$ 18,743,975</u>	<u>\$ 19,030,577</u>

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2019 and 2018

Note 4 - Fair Value Measurements

Investment income for the fiscal years ended June 30, 2019 and 2018 is composed of the following:

	2019	2018
Interest and dividends	\$ 385,458	\$ 381,728
Investment fees	(66,800)	(63,626)
Net realized and unrealized losses on investments	770,080	1,077,139
Total	\$ 1,088,738	\$ 1,395,241

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, 2019 and 2018

Note 4 - 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.

The Foundation's investment in the partnership was determined by the NAV per share, as a practical expedient for a fair value measurement.

Assets Measured at Fair Value on a Recurring Basis at June 30, 2019

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, 2019
U.S. government securities	\$ 1,418,127	\$ -	\$ -	\$ 1,418,127
Mutual funds:				
Equity	12,683,140	-	-	12,683,140
Fixed income	3,111,036	-	-	3,111,036
Foreign bond issues	-	319,341	-	319,341
Corporate bond issues	-	1,163,767	-	1,163,767
Beneficial interest in trusts	-	-	796,980	796,980
Measured using NAV as a practical expedient:				
Partnership	-	-	-	48,564
Total assets	\$ 17,212,303	\$ 1,483,108	\$ 796,980	\$ 19,540,955

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	\$ 17,663,832	\$ 1,366,745	\$ 913,594	\$ 19,944,171

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2019 and 2018

Note 4 - Fair Value Measurements (Continued)

Investments in Entities that Calculate Net Asset Value per Share

The Limited Partnership holds shares or interests in private companies at year end whereby the fair value of the investment held is estimated based on the net asset value per share (or its equivalent) in the company.

The Limited Partnership makes investments in private companies that demonstrate the potential for sustainable, profitable, growth capable of providing a suitable return to the investors.

Quantitative Information about Level 3 Fair Value Measurements

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, 2018	\$	913,594
Change in value of split-interest trusts		(116,614)
June 30, 2019	\$	796,980
July 1, 2017	\$	1,025,037
Change in value of split-interest trusts		(111,443)
June 30, 2018	\$	913,594

The following table summarizes the valuation methods and inputs used to determine fair value at June 30, 2019 and 2018 for assets measured at fair value on a recurring basis using unobservable inputs (Level 3 inputs):

	Fair Value at June 30, 2019	Fair Value at June 30, 2018	Valuation Technique	Significant Unobservable Inputs Used	Range
Assets - Beneficial interests in trusts	\$ 796,980	\$ 913,594	Present value of future distributions to be received, IRS published tables	Life expectancy of beneficiaries	3-6 years and discount rates ranged from 6.4% to 7.6%

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2019 and 2018

Note 4 - Fair Value Measurements (Continued)

Unrealized gains and losses generated from Level 3 beneficial interests in trusts still held at June 30, 2019 and 2018 and reported in the Foundation's statements of activities were (\$116,614) and (\$111,443), respectively.

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, 2019 and June 30, 2018, there were no transfers between levels of the fair value hierarchy.

Note 5 – Contributions, Grants 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, 2019 and 2018 range from 3.25 percent to 7.57 percent.

Gross pledges at June 30, 2019 and 2018 were \$395,198 and \$473,296, respectively. The present value of the discount associated with these pledges at June 30, 2019 and 2018 was \$41,029 and \$54,862, respectively.

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2019 and 2018

Note 5 – Contributions, Grants Receivable and Other Assets (Continued)

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

	2019	2018
Less than one year	\$ 122,169	\$ 120,784
One to five years	210,359	253,991
Over five years	21,641	43,659
Total contributions and grants receivable	354,169	418,434
Less allowance for uncollectible pledges	(23,485)	(24,592)
Net contributions receivable	\$ 330,684	\$ 393,842

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 \$7,350,000 as of June 30, 2019 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 \$59,000 and \$58,000 at June 30, 2019 and 2018, respectively. Related party contribution revenue recognized for the years ended June 30, 2019 and 2018 totaled \$30,407 and \$27,907, respectively.

Grants receivable are expected to be fully collectible within one year and therefore there is no allowance. Grants receivable at June 30, 2019 and 2018 were \$196,914 and \$0, respectively.

As of June 30, 2019 and 2018, the Foundation had cash surrender value of insurance policies of \$277,702 and \$271,287, respectively. The face values of these policies as of June 30, 2019 and 2018 were \$1,461,571 and \$1,561,330, respectively, and are not reflected in the statements of net assets.

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2019 and 2018

Note 6 - Property and Equipment

Property and equipment consist of the following:

	2019	2018
Land	\$ 2,011,200	\$ 2,011,200
Equipment and furniture	81,202	23,583
Buildings	8,942,735	8,843,646
Construction in progress	33,800	10,500
Total property and equipment	11,068,937	10,888,929
Accumulated depreciation	1,106,571	878,311
Net property and equipment	\$ 9,962,366	\$ 10,010,618

The total depreciation expense was \$228,259 and \$258,005 for the years ended June 30, 2019 and 2018, 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 7 - 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 \$796,980 and \$913,594 at June 30, 2019 and 2018, 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, 2019 and 2018

Note 7 - 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, 2019 and 2018 are \$239,263 and \$193,626, respectively. These amounts are recognized as a liability in the Foundation's statements of net assets.

Note 8 – Net Assets Without Donor Restrictions

The Foundation's net assets without donor restrictions totaled \$8,052,310 and \$7,942,983 as of June 30, 2019 and June 30, 2018. The Foundation's governing board has designated assets for the following purposes as of June 30:

	2019	2018
Board designated endowment funds	\$ 1,627,789	\$ 1,664,741
President's research capacity building fund	449,449	428,448
Total board designated net assets	<u>\$ 2,077,238</u>	<u>\$ 2,093,189</u>

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2019 and 2018

Note 9 – Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods as of June 30:

	<u>2019</u>	<u>2018</u>
Purpose restrictions, available for spending:		
Funds received and restricted for specified purposes	\$ 2,613,253	\$ 2,891,075
Time restrictions:		
Contributions receivable	304,041	334,835
Cash surrender value of life insurance	92,712	86,700
Split-interest agreements, which are unavailable for spending until the deaths of the beneficiaries	796,980	913,594
Subtotal	<u>1,193,733</u>	<u>1,335,129</u>
Endowment funds, which must be held in perpetuity for:		
Scholarships and student aid	4,495,854	4,363,630
University facilities and programs	<u>6,243,454</u>	<u>6,189,468</u>
Subtotal	<u>10,739,308</u>	<u>10,553,098</u>
Accumulated earnings on endowment funds:		
Scholarships and student aid	1,756,806	1,648,974
University facilities and programs	<u>2,475,658</u>	<u>2,379,956</u>
Subtotal	<u>4,232,464</u>	<u>4,028,930</u>
Net assets with donor restrictions	<u><u>\$ 18,778,758</u></u>	<u><u>\$ 18,808,232</u></u>

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2019 and 2018

Note 9 – Net Assets With Donor Restrictions (Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors for the year ended June 30 as follows:

	<u>2019</u>	<u>2018</u>
Purpose restrictions accomplished:		
Foundation funds	\$ 1,053,566	\$ 956,249
Time restrictions expired:		
Collection of contributions receivable	242,180	214,766
Release of appropriated endowment amounts with purpose restrictions:		
Scholarships and student aid	270,064	269,726
University facilities and programs	386,061	360,247
Subtotal	<u>656,125</u>	<u>629,973</u>
Total releases of donor restrictions	<u>\$ 1,951,871</u>	<u>\$ 1,800,988</u>

Note 10 - Rental Income

The Foundation has two buildings subject to two lease agreements, one with the University, and one with a third party.

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. This lease was renewed on April 26, 2019 for the term beginning July 1, 2019 and ending on June 30, 3021 at an annual rental rate of \$321,941.

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2019 and 2018

Note 10 - Rental Income (Continued)

The following is a schedule by years of future minimum rentals required under the leases at June 30, 2019:

Years Ending June 30	Amount
2020	\$ 409,551
2021	409,551
2022	87,610
2023	87,610
2024	87,610
Thereafter	<u>438,050</u>
Total	<u>\$ 1,519,982</u>

Note 11 - 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 included a balloon payment due at maturity on February 25, 2019 for the remaining balance. The Foundation exercised an option to extend the maturity date for a two-year period to February 25, 2021; however, payments will continue during that time. At June 30, 2019 and 2018 the outstanding principal balance of the note was \$3,698,916 and \$3,865,792, 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, 2020. At June 30, 2019 and 2018 the outstanding principal balance on the note was \$250,000 and \$400,000, respectively.

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2019 and 2018

Note 11 - Note Payable (Continued)

Maturities of the notes payable at June 30, 2019 are set forth in the following schedule:

Years Ending	
<u>June 30</u>	<u>Amount</u>
2020	\$ 175,414
2021	<u>3,773,502</u>
Total	<u>\$ 3,948,916</u>

Note 12 - Transactions with Shawnee State University

The Foundation made distributions to, or on behalf of, the University of \$1,642,865 during the year ended June 30, 2019 and \$1,053,123 during the year ended June 30, 2018. Administrative expenses of \$390,000 in fiscal year 2019 and \$389,975 in fiscal year 2018 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 \$22,006 and \$24,175 as of June 30, 2019 and 2018, respectively, and is reflected as a lease receivable in the Foundation's statements of net assets.

The Foundation passed through federal grants to the University, the administrative agent for the grants, in the amount of \$396,733 during the year ended June 30, 2019. The Foundation has recorded a grant payable to the University at June 30, 2019 in the amount of \$196,914.

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2019 and 2018

Note 13 - 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.

Endowment net asset composition by type of fund as of June 30, 2019 is as follows:

Endowment Net Asset Composition by Type of Fund as of June 30, 2019

	Without Donor Restriction	With Donor Restriction	Total
Board-designated endowment	\$ 1,627,789	\$ -	\$ 1,627,789
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	10,739,308	10,739,308
Accumulated investment gains	-	4,232,464	4,232,464
Total funds	<u>\$ 1,627,789</u>	<u>\$ 14,971,772</u>	<u>\$ 16,599,561</u>

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2019 and 2018

Note 13 - Endowment Composition (Continued)

Changes in endowment net assets for the year ended June 30, 2019 are as follows:

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2019

	Without Donor Restriction	With Donor Restriction	Total
Endowment Net assets - Beginning of year	\$ 1,664,741	\$ 14,582,028	\$ 16,246,769
Investment return	82,030	859,659	941,689
Contributions	4,292	186,210	190,502
Appropriation of endowment assets for expenditure	<u>(123,274)</u>	<u>(656,125)</u>	<u>(779,399)</u>
Endowment Net assets - End of year	<u>\$ 1,627,789</u>	<u>\$ 14,971,772</u>	<u>\$ 16,599,561</u>

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

	Without Donor Restriction	With Donor Restriction	Total
Board-designated endowment	\$ 1,664,741	\$ -	\$ 1,664,741
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	10,553,098	10,553,098
Accumulated investment gains	<u>-</u>	<u>4,028,930</u>	<u>4,028,930</u>
Total funds	<u>\$ 1,664,741</u>	<u>\$ 14,582,028</u>	<u>\$ 16,246,769</u>

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2019 and 2018

Note 13 - Endowment Composition (Continued)

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

	Without Donor Restriction	With Donor Restriction	Total
Endowment Net assets - Beginning of year	\$ 1,636,148	\$ 13,741,878	\$ 15,378,026
Investment return	125,921	1,056,516	1,182,437
Contributions	1,770	413,607	415,377
Appropriation of endowment assets for expenditure	<u>(99,098)</u>	<u>(629,973)</u>	<u>(729,071)</u>
Endowment Net assets - End of year	<u>\$ 1,664,741</u>	<u>\$ 14,582,028</u>	<u>\$ 16,246,769</u>

Interpretation of UPMIFA - The Foundation is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the board of trustees appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The board of trustees of the Foundation had interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Foundation considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Foundation has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, 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

Shawnee State University Development Foundation

Notes to Financial Statements
June 30, 2019 and 2018

Note 13 - Endowment Composition (Continued)

(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

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 are reported in the respective net asset category that holds the funds. Such amounts totaled \$76,865 and \$49,477 as of June 30, 2019 and 2018, 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, 2019 and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements and have issued our report thereon dated October 9, 2019.

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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2019-001, that we consider to be a material weakness.

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 & Moreau, PLLC

October 9, 2019

Schedule of Findings and Responses

Year Ended June 30, 2019

Reference Number	Finding
2019-001	<p>Finding Type - Material weakness</p> <p>Criteria - Net assets should be classified as net assets with donor restrictions only if they are subject to donor-imposed restrictions.</p> <p>Condition - Certain board-designated net assets funds were improperly classified as net assets with donor restrictions.</p> <p>Context - Management identified net asset funds that were classified as net assets with donor restrictions (formerly temporarily restricted or permanently restricted) that should have been classified as net assets without donor restrictions (formerly unrestricted). These net asset funds were \$1,081,170 at June 30, 2018 and \$1,068,712 at July 1, 2017.</p> <p>Cause - Management was not properly reviewing all net asset funds to determine proper restriction based on existence or absence of donor-imposed restrictions.</p> <p>Effect - Management provided an adjustment to increase net assets without donor restrictions and decrease net assets with donor restrictions by \$1,081,170 at June 30, 2018 and to increase net assets without donor restrictions and decrease net assets with donor restrictions by \$1,068,712 at July 1, 2017 to correct the classification of net assets.</p> <p>Recommendation - We recommend that management review net asset fund balances periodically to verify net assets are classified properly based on donor restrictions.</p> <p>Views of Responsible Officials and Planned Corrective Actions - We agree that a reclassification of net asset balances was warranted and assert that the related reporting error was discovered by the Foundation's internal control process and corrected by the Foundation's management prior to audit. This reclassification between net asset categories resulted from more conservative reporting in previous years. The total of the individual line items in our previous years' financial statements was unchanged, and the net effect on the total change in net assets and total net assets was also unchanged. We will follow the auditor's recommendations and continue to emphasize related internal control procedures.</p>

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OHIO AUDITOR OF STATE KEITH FABER



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 26, 2019**