

**SHAWNEE STATE UNIVERSITY  
DEVELOPMENT FOUNDATION**  
Portsmouth, Ohio

**FINANCIAL STATEMENTS**  
June 30, 2013 and 2012





# 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 Crowe Horwath LLP, for the audit period July 1, 2012 through June 30, 2013. 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 25, 2013

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SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION

Portsmouth, Ohio

FINANCIAL STATEMENTS

June 30, 2013 and 2012

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Shawnee State University Development Foundation  
Portsmouth, Ohio

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

We have audited the accompanying financial statements of Shawnee State University Foundation (the "Foundation"), which comprise the statements of financial position as of June 30, 2013 and 2012, 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 audit 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.

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## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June, 30, 2013 and 2012, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Other Legal and Regulatory Requirements**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2013 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.



Crowe Horwath LLP

Columbus, Ohio  
October 15, 2013

SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION  
 STATEMENTS OF NET ASSETS  
 June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,521,514	\$ 2,042,631
Investments	14,274,189	12,768,635
Contributions receivable	3,249,037	1,349,290
Beneficial interest in trusts held by others	1,225,717	1,144,954
Other assets	206,575	192,381
Net property and equipment	<u>119,650</u>	<u>-</u>
Total assets	<u>\$ 20,596,682</u>	<u>\$ 17,497,891</u>
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable	\$ 3,654	\$ 26,121
Deposits held and due to others	171,648	111,778
Annuity payment liability	<u>297,927</u>	<u>324,109</u>
Total liabilities	<u>473,229</u>	<u>462,008</u>
Net assets		
Unrestricted	2,407,943	64,030
Temporarily restricted	8,029,210	9,213,579
Permanently restricted	<u>9,686,300</u>	<u>7,758,274</u>
Total net assets	<u>20,123,453</u>	<u>17,035,883</u>
Total liabilities and net assets	<u>\$ 20,596,682</u>	<u>\$ 17,497,891</u>

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See accompanying notes to financial statements.

SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION  
 STATEMENTS OF ACTIVITIES  
 Year ended June 30, 2013 with comparative 2012 totals

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2013</u>	<u>Total 2012</u>
<b>Revenues, gains and other support</b>					
Contributions	\$ 180,054	\$ 693,765	\$ 1,929,951	\$ 2,803,770	\$ 1,801,717
Investment income, net	161,811	1,643,534	-	1,805,345	55,383
Losses for uncollectable contributions	(883)	(1,841)	(1,925)	(4,649)	(11,601)
Other income	4,000	-	-	4,000	-
Net assets released from restrictions	<u>3,519,827</u>	<u>(3,519,827)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>3,864,809</u>	<u>(1,184,369)</u>	<u>1,928,026</u>	<u>4,608,466</u>	<u>1,845,499</u>
<b>Expenses and losses</b>					
Scholarships and other student aid	188,153	-	-	188,153	197,370
Institutional support	1,078,311	-	-	1,078,311	796,216
Guest speakers and lecturers	10,751	-	-	10,751	8,355
Management and general expenses	<u>243,681</u>	<u>-</u>	<u>-</u>	<u>243,681</u>	<u>191,467</u>
Total expenses and losses	<u>1,520,896</u>	<u>-</u>	<u>-</u>	<u>1,520,896</u>	<u>1,193,408</u>
<b>Change in net assets</b>	2,343,913	(1,184,369)	1,928,026	3,087,570	652,091
Net assets at beginning of year	<u>64,030</u>	<u>9,213,579</u>	<u>7,758,274</u>	<u>17,035,883</u>	<u>16,383,792</u>
<b>Net assets at end of year</b>	<u>\$2,407,943</u>	<u>\$ 8,029,210</u>	<u>\$ 9,686,300</u>	<u>\$ 20,123,453</u>	<u>\$17,035,883</u>

See accompanying notes to financial statements.

SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION  
STATEMENT OF ACTIVITIES  
Year ended June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2012</u>
<b>Revenues, gains and other support</b>				
Contributions	\$ 79,638	\$ 1,718,238	\$ 3,841	\$ 1,801,717
Investment income, net	(87,860)	143,243	-	55,383
Losses for uncollectable contributions	(100)	(11,446)	(55)	(11,601)
Net assets released from restrictions	<u>1,108,833</u>	<u>(1,108,833)</u>	-	-
Total revenues and other support	<u>1,100,511</u>	<u>741,202</u>	<u>3,786</u>	<u>1,845,499</u>
<b>Expenses and losses</b>				
Scholarships and other student aid	197,370	-	-	197,370
Institutional support	796,216	-	-	796,216
Guest speakers and lecturers	8,355	-	-	8,355
Management and general expenses	<u>191,467</u>	-	-	<u>191,467</u>
Total expenses and losses	<u>1,193,408</u>	-	-	<u>1,193,408</u>
<b>Change in net assets</b>	(92,897)	741,202	3,786	652,091
Net assets at beginning of year	<u>156,927</u>	<u>8,472,377</u>	<u>7,754,488</u>	<u>16,383,792</u>
<b>Net assets at end of year</b>	<u>\$ 64,030</u>	<u>\$ 9,213,579</u>	<u>\$ 7,758,274</u>	<u>\$17,035,883</u>

See accompanying notes to financial statements.

SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION  
STATEMENTS OF CASH FLOWS  
Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 3,087,570	\$ 652,091
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	350	-
Non-cash contributions	(120,000)	(21,921)
Realized and unrealized (gains) on investments	(1,638,125)	112,479
Funds held in trust by others	(80,763)	11,057
Contributions restricted for long-term purposes	(9,580)	(3,841)
Bad debt losses	4,649	11,601
Changes in assets and liabilities		
Contributions receivable	(1,904,396)	(912,030)
Other assets	(15,079)	(6,802)
Accounts payable	(22,467)	22,312
Deposits held and due to others	59,870	19,070
Annuity obligations	<u>(26,182)</u>	<u>(143,329)</u>
Net cash from operating activities	(664,153)	(259,313)
<b>Cash flows from investing activities</b>		
Proceeds from sales of investments	6,679,933	4,643,791
Purchase of investments	<u>(6,546,477)</u>	<u>(4,323,203)</u>
Net cash from investing activities	133,456	320,588
<b>Cash flows from financing activities</b>		
Contributions restricted for long-term purposes	<u>9,580</u>	<u>3,841</u>
Net cash from financing activities	<u>9,580</u>	<u>3,841</u>
Net change in cash and cash equivalents	(521,117)	65,116
Cash and cash equivalents, beginning of year	<u>2,042,631</u>	<u>1,977,515</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 1,521,514</u>	<u>\$ 2,042,631</u>

See accompanying notes to financial statements.

SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013 and 2012

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**NOTE 1 - 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 primary source of revenues 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 Presentation: The Foundation classifies net assets, revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

*Unrestricted net assets* – Net assets that are not subject to donor-imposed stipulations.

*Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that 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 them 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.

Cash and Cash Equivalents: The Foundation considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Deposits in banks are insured by an agency of the federal government up to the amount on deposit at June 30, 2013 and 2012.

Investments: Investments are carried at fair value. Investments received by 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.

Contributions: Contributions to the Foundation are recognized and reported as revenue at fair value upon the earlier of the period in which a pledge becomes unconditional or the period in which the contribution is received. Contributions with donor-imposed restrictions are reported as temporarily or permanently restricted support, while contributions without donor-imposed restrictions are reported as unrestricted support.

Annuities Payable: The carrying value of annuities payable is actuarially determined based on the present value of the discounted estimated future cash flows using market interest rates.

Net Assets: Permanently restricted net assets represent contributions in which the donor has stipulated, as a condition of the gift, that the principal be maintained intact and only the earnings of the fund be expended as the donor has specified.

Expiration of Donor-Imposed Restrictions: The expiration of a donor-imposed restriction on a contribution or on endowment income is recognized in the period in which the restriction expires and at that time the related resources are reclassified to unrestricted net assets. A restriction expires when either the stipulated time has elapsed or when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions of land, buildings, and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues 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 revenues of temporarily restricted net assets. The restrictions are considered to be released at the time of acquisition of such long-lived assets.

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SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013 and 2012

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**NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)**

Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors or by the change of restrictions specified by the donors. Generally the releases of restrictions are for scholarships and capital projects. When an expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the Foundation's policy to apply restricted resources first, then unrestricted resources as needed.

Federal Income Tax: The Internal Revenue Service has ruled that the Foundation is exempt from federal income taxes under Section 401(a) of the Internal Revenue Code as a public charity described in Section 501(c)(3).

GAAP prescribes recognition thresholds and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Tax benefits will be recognized only if a tax position is more-likely-than-not sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized will be the largest amount of tax benefit that is greater than 50% likely being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax benefit will be recorded. Management has concluded that they are unaware of any tax benefits or liabilities to be recognized at June 30, 2013 and 2012.

The Foundation would recognize interest and penalties related to unrecognized tax benefits in interest and income tax expense, respectively. The Foundation has no amounts accrued for interest or penalties for the years ended June 30, 2013 and 2012. The Foundation is no longer subject to examination by taxing authorities for years before 2008. The Foundation does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months.

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.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2013 to determine the need for any adjustments or disclosures within the audited financial statements for the year ended June 30, 2013. Management has performed their analysis through October 15, 2013, the date the financial statements were available to be issued.

**NOTE 2 - INVESTMENTS**

The fair value of investments held by the Foundation at June 30, 2013 and 2012 is summarized as follows:

	<u>2013</u>	<u>2012</u>
United States Government securities	\$ 1,825,471	\$ 1,159,563
Mutual funds		
Equity	1,263,298	2,646,241
Fixed income	2,815,327	1,466,357
Common stock	7,770,396	6,727,429
Corporate bond issues	<u>599,697</u>	<u>769,045</u>
Total	<u>\$ 14,274,189</u>	<u>\$ 12,768,635</u>

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SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013 and 2012

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**NOTE 2 – INVESTMENTS** (Continued)

Investment income for the fiscal years ended June 30, 2013 and 2012 is composed of the following:

	<u>2013</u>	<u>2012</u>
Interest and dividends	\$ 276,527	\$ 268,805
Investment fees	(109,307)	(100,943)
Net realized and unrealized gains (losses) on investments	<u>1,638,125</u>	<u>(112,479)</u>
Total	<u>\$ 1,805,345</u>	<u>\$ 55,383</u>

The various investments are exposed to a variety of uncertainties, including interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is possible that changes in the values of these investments could occur in the near term. Such changes could materially affect the amounts reported in the financial statements of the Foundation.

**NOTE 3 - FAIR VALUE OF FINANCIAL INSTRUMENTS**

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:

Level 1: Quoted prices for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013 and 2012

**NOTE 3 - FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

Assets Measured on a Recurring Basis:

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2013			
U.S. Government securities	\$ 1,825,470	\$ -	\$ -
Mutual funds			
Equity	1,263,298	-	-
Fixed income	2,815,327	-	-
Common stock			
Industrials	626,601	-	-
Healthcare	981,873	-	-
Information technology	1,410,958	-	-
Energy	762,317	-	-
Materials	342,480	-	-
Foreign	1,074,682	-	-
Financials	545,541	-	-
Consumer goods	1,582,367	-	-
Other	413,578	-	-
Corporate bond issues	-	599,697	-
Beneficial interest in trusts	-	-	1,225,717
	<u>\$ 13,674,492</u>	<u>\$ 599,697</u>	<u>\$ 1,225,717</u>
	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2012			
U.S. Government securities	\$ 1,159,563	\$ -	\$ -
Mutual funds			
Equity	2,646,241	-	-
Fixed income	1,466,357	-	-
Common stock			
Industrials	536,956	-	-
Healthcare	655,762	-	-
Information technology	1,215,422	-	-
Energy	714,683	-	-
Materials	329,146	-	-
Foreign	1,055,422	-	-
Financials	535,128	-	-
Consumer goods	1,226,161	-	-
Other	458,749	-	-
Corporate bond issues	-	769,045	-
Beneficial interest in trusts	-	-	1,144,954
	<u>\$ 11,999,590</u>	<u>\$ 769,045</u>	<u>\$ 1,144,954</u>

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SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013 and 2012

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**NOTE 3 - FAIR VALUE OF FINANCIAL INSTRUMENTS** (Continued)

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

	<u>Fair Value Measurements Using Significant Unobservable Inputs (Level 3) for Beneficial Interest</u>
July 1, 2012	\$ 1,144,954
Change in value of split-interest trusts	<u>80,763</u>
June 30, 2013	<u>\$ 1,225,717</u>
July 1, 2011	\$ 1,156,011
Change in value of split-interest trusts	<u>(11,057)</u>
June 30, 2012	<u>\$ 1,144,954</u>

Unrealized gains and losses generated from Level 3 beneficial interests in trusts still held at June 30, 2013 and 2012 and reported in the Foundation's statement of activities were \$80,763 and (\$11,057), respectively.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

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 bonds investments are 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 conjunctions 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 redemption rights. These assets are valued using the market approach with Level 3 inputs.

**NOTE 4 - CONTRIBUTIONS RECEIVABLE AND OTHER ASSETS**

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

	<u>2013</u>	<u>2012</u>
Less than one year	\$ 1,386,494	\$ 1,242,437
One to five years	<u>1,945,852</u>	<u>141,451</u>
Total contributions receivable	3,332,346	1,383,888
Less: Allowance for uncollectible pledges	<u>(83,309)</u>	<u>(34,598)</u>
Net contributions receivable	<u>\$ 3,249,037</u>	<u>\$ 1,349,290</u>

(Continued)

SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013 and 2012

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**NOTE 4 - CONTRIBUTIONS RECEIVABLE AND OTHER ASSETS (Continued)**

The Foundation received conditional promises to give totaling approximately \$7,880,312 as of June 30, 2013 that have not been recognized as assets in the statement of financial position. 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 \$146,000 and \$171,000 at June 30, 2013 and 2012, respectively. Related party contribution revenue recognized for the years ended June 30, 2013 and 2012 totaled \$8,910 and \$100,240, respectively. As of June 30, 2013 and 2012, the Foundation had cash surrender value of insurance policies of \$206,575 and \$192,380, respectively. The face value of these policies as of June 30, 2013 of \$1,552,691 is not reflected in the statement of financial position.

**NOTE 5 – PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

Land	\$ 36,000
Buildings	<u>84,000</u>
	120,000
Accumulated depreciation	<u>350</u>
Net property and equipment	<u>\$ 119,650</u>

Property in the downtown district of Portsmouth, Ohio was donated and deeded to the Foundation in May 2013 with a fair market value of \$120,000. The Foundation intends to hold onto the property for future development. The Foundation has elected to record the donated property as an unrestricted contribution in the year it was received and will depreciate the property using the straight line method over a life of 40 years. The depreciation expense for the year was \$350.

**NOTE 6 - SPLIT-INTEREST AGREEMENTS**

The Foundation has been named 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 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 Foundation accounts for such agreements by recording the fair value of assets donated netted against the present value of the annuities payable based on the terms of the agreement as beneficial interests in trusts held by others. The excess of the fair value of the donated assets over the liability is recorded as unrestricted support in the year of the gift, unless the donor has placed restrictions on the use of the gift, in which case the excess is recorded as an addition to temporarily or permanently restricted net assets.

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SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013 and 2012

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**NOTE 7 - RESTRICTED NET ASSETS**

Temporarily and permanently restricted net assets at June 30, 2013 are restricted for the following purposes:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Presidents Research Capital Bldg	\$ -	\$ -
Scholarships and student aid	1,358,965	3,616,457
Irrevocable charitable trusts	1,057,189	168,528
University facilities and programs	<u>5,613,056</u>	<u>5,901,315</u>
Total	<u>\$ 8,029,210</u>	<u>\$ 9,686,300</u>

Temporarily and permanently restricted net assets at June 30, 2012 are restricted for the following purposes:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Presidents Research Capital Bldg	\$ 2,003,466	\$ -
Scholarships and student aid	1,039,525	3,567,882
Irrevocable charitable trusts	976,505	168,449
University facilities and programs	<u>5,194,083</u>	<u>4,021,943</u>
Total	<u>\$ 9,213,579</u>	<u>\$ 7,758,274</u>

During the years ended June 30, 2013 and 2012, \$3,519,827 and \$1,108,833, respectively, were released from restrictions.

**NOTE 8 - CONCENTRATION OF CREDIT RISK**

Financial instruments, which potentially subject the Foundation to a concentration of credit risk, consist primarily of contributions receivable, and investments.

The Foundation maintains a custodial account with U.S. Bank N.A., Private Client, Trust and Asset Management Division. U.S. Bank maintains insurance coverage against major losses. Policies currently in place include an errors and omission policy, employee fidelity bond, blanket lost original instruments bond and master trust property policy. Coverage is provided by insurance companies which U.S. Bank management believes to be financially sound, and is maintained at levels which U.S. Bank considers reasonable given the size and scope of its operations. Insurance coverage is approved annually by the U.S. Bank Board of Directors.

**NOTE 9 - DISTRIBUTIONS TO SHAWNEE STATE UNIVERSITY**

The Foundation made distributions to, or on behalf of the University of \$1,277,215 during the year ended June 30, 2013 and \$1,001,941 during the year ended June 30, 2012. Administrative expenses of \$240,865 in fiscal year 2013 and \$191,467 in fiscal year 2012 were reimbursed to Shawnee State University for direct costs, including an allocation of salary and benefits, incurred in the management of the Foundation's endowment funds.

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(Continued)

SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013 and 2012

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**NOTE 10 - ENDOWMENT COMPOSITION**

The Foundations' 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, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Donor-restricted endowment funds	\$ (32,771)	\$ 2,048,440	\$ 9,686,300	\$ 11,701,969
Funds functioning as endowment	<u>142,020</u>	<u>-</u>	<u>-</u>	<u>142,020</u>
Total funds	<u>\$ 109,249</u>	<u>\$ 2,048,440</u>	<u>\$ 9,686,300</u>	<u>\$ 11,843,989</u>

Changes in endowment net assets for year ended June 30, 2013.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Net assets, beginning of year	\$ (28,904)	\$ 3,278,797	\$ 7,758,275	\$ 11,008,168
Investment return	40,842	1,224,985	-	1,265,827
Transfer for underwater investments	<u>112,255</u>	<u>(112,255)</u>	<u>-</u>	<u>-</u>
Total investment return	124,193	4,391,527	7,758,275	12,282,995
Contributions	-	-	1,928,025	1,928,025
Appropriation of endowment assets for expenditure	<u>(14,944)</u>	<u>(2,343,087)</u>	<u>-</u>	<u>(2,358,031)</u>
Net assets, end of year	<u>\$ 109,249</u>	<u>\$ 2,048,440</u>	<u>\$ 9,686,300</u>	<u>\$ 11,843,989</u>

Endowment net asset composition by type of fund as of June 30, 2012:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Donor-restricted endowment funds	\$ (145,026)	\$ 1,275,331	\$ 7,758,274	\$ 8,888,579
Funds functioning as endowment	<u>116,122</u>	<u>2,003,466</u>	<u>-</u>	<u>2,119,588</u>
Total funds	<u>\$ (28,904)</u>	<u>\$ 3,278,797</u>	<u>\$ 7,758,274</u>	<u>\$ 11,008,167</u>

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

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(Continued)

SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2013 and 2012

**NOTE 10 - ENDOWMENT COMPOSITION** (Continued)

Changes in endowment net assets for year ended June 30, 2012.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Net assets, beginning of year	\$ 70,305	\$ 3,467,498	\$ 7,754,488	\$ 11,292,291
Investment return	1,311	46,924	-	48,235
Transfer for underwater investments	<u>(86,669)</u>	<u>86,669</u>	-	-
Total investment return	(85,358)	133,593	7,754,488	11,340,526
Contributions	-	-	3,786	3,786
Appropriation of endowment assets for expenditure	<u>(13,851)</u>	<u>(322,294)</u>	-	<u>(336,145)</u>
Net assets, end of year	<u>\$ (28,904)</u>	<u>\$ 3,278,797</u>	<u>\$ 7,758,274</u>	<u>\$ 11,008,167</u>

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 organization 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 organization; and
- (7) The investment policies of the organization.

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(s) as well as funds functioning as endowment. Under this policy, as approved by the Board of Directors, 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%, 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.

(Continued)

SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2013 and 2012

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**NOTE 10 - ENDOWMENT COMPOSITION** (Continued)

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 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 \$32,771 and \$145,026 as of June 30, 2013 and 2012, respectively. These deficiencies resulted from unfavorable market fluctuations.

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

Board of Trustees  
Shawnee State University Development Foundation  
Portsmouth, Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Shawnee State University Development Foundation, which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon the same day as this report.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered 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 Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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(Continued)

## Compliance and Other Matters

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

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Crowe Horwath LLP". The signature is written in a cursive, flowing style.

Crowe Horwath LLP

Columbus, Ohio  
October 15, 2013



# 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  
DECEMBER 5, 2013**