

Shawnee State University Development Foundation

Financial Report

June 30, 2014



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Shawnee State University Foundation, Scioto County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2013 through June 30, 2014. 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 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 6, 2014

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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 the Shawnee State University Development Foundation (the "Foundation"), which comprise the statements of net assets as of June 30, 2014 and the related statements of activities and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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.

To the Board of Trustees
Shawnee State University
Development Foundation

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Shawnee State University Development Foundation as of June 30, 2014 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The financial statements of the Shawnee State University Development Foundation as of June 30, 2013 were audited by other auditors, whose report dated October 15, 2013 expressed an unmodified opinion on those statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2014 on our consideration of the 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 the Shawnee State University Development Foundation's internal control over financial reporting and compliance.

Plante & Morse, PLLC

October 13, 2014

Shawnee State University Development Foundation

Statements of Net Assets

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Assets		
Cash and cash equivalents	\$ 191,827	\$ 1,521,514
Investments	16,842,142	14,274,189
Contributions receivable - Net	2,255,451	3,249,037
Lease receivable from related party	44,550	-
Beneficial interest in trusts held by others	1,285,326	1,225,717
Cash surrender value of life insurance	221,027	206,575
Other assets	136,272	-
Net property and equipment	<u>9,561,921</u>	<u>119,650</u>
Total assets	<u>\$ 30,538,516</u>	<u>\$ 20,596,682</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 17,725	\$ 3,654
Accrued real estate tax	29,827	-
Other payables	25,000	-
Deposits held and due to others	211,677	171,648
Annuity payment liability	269,181	297,927
Note payable	<u>4,455,934</u>	<u>-</u>
Total liabilities	<u>5,009,344</u>	<u>473,229</u>
Net Assets		
Unrestricted	6,295,930	2,407,943
Temporarily restricted	9,468,855	8,029,210
Permanently restricted	<u>9,764,387</u>	<u>9,686,300</u>
Total net assets	<u>25,529,172</u>	<u>20,123,453</u>
Total liabilities and net assets	<u>\$ 30,538,516</u>	<u>\$ 20,596,682</u>

Shawnee State University Development Foundation

Statements of Activities Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2014	Total 2013
Revenues and Other Support					
Contributions	\$ 3,424,576	\$ 429,784	\$ 38,718	\$ 3,893,078	\$ 2,794,683
Investment income - Net	234,203	2,357,402	-	2,591,605	1,805,345
Change in value of split-interest agreements	2,632	49,824	39,369	91,825	9,087
Losses for uncollectible contributions	(445)	-	-	(445)	(4,649)
Other income	3,000	-	-	3,000	4,000
Rental loss - Net	(21,405)	-	-	(21,405)	-
Net assets released from restrictions	1,397,365	(1,397,365)	-	-	-
Total revenues and other support	5,039,926	1,439,645	78,087	6,557,658	4,608,466
Expenses and Losses					
Scholarships and other student aid	320,264	-	-	320,264	188,153
Institutional support	435,530	-	-	435,530	1,078,311
Guest speakers and lecturers	8,098	-	-	8,098	10,751
Management and general expenses	388,047	-	-	388,047	243,681
Total expenses and losses	1,151,939	-	-	1,151,939	1,520,896
Change in Net Assets	3,887,987	1,439,645	78,087	5,405,719	3,087,570
Net Assets - Beginning of year	2,407,943	8,029,210	9,686,300	20,123,453	17,035,883
Net Assets - End of year	<u>\$6,295,930</u>	<u>\$9,468,855</u>	<u>\$9,764,387</u>	<u>\$25,529,172</u>	<u>\$20,123,453</u>

Shawnee State University Development Foundation

Statement of Activities Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Other Support				
Contributions	\$ 178,914	\$ 658,407	\$ 1,957,362	\$ 2,794,683
Investment income - Net	161,811	1,643,534	-	1,805,345
Change in value of split-interest agreements	1,140	35,358	(27,411)	9,087
Losses for uncollectible contributions	(883)	(1,841)	(1,925)	(4,649)
Other income	4,000	-	-	4,000
Net assets released from restrictions	3,519,827	(3,519,827)	-	-
Total revenues and other support	3,864,809	(1,184,369)	1,928,026	4,608,466
Expenses and Losses				
Scholarships and other student aid	188,153	-	-	188,153
Institutional support	1,078,311	-	-	1,078,311
Guest speakers and lecturers	10,751	-	-	10,751
Management and general expenses	243,681	-	-	243,681
Total expenses and losses	1,520,896	-	-	1,520,896
Change in Net Assets	2,343,913	(1,184,369)	1,928,026	3,087,570
Net Assets - Beginning of year	64,030	9,213,579	7,758,274	17,035,883
Net Assets - End of year	\$ 2,407,943	\$ 8,029,210	\$ 9,686,300	\$20,123,453

Shawnee State University Development Foundation

Statements of Cash Flows

	Year Ended	
	June 30, 2014	June 30, 2013
Cash Flows from Operating Activities		
Change in net assets	\$ 5,405,719	\$ 3,087,570
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	67,729	350
Amortization	635	-
Noncash contributions	(3,315,239)	(120,000)
Realized and unrealized gains on investments	(2,326,614)	(1,638,125)
Funds held in trust by others	(59,609)	(80,763)
Contributions restricted for long-term purposes	(78,087)	(9,580)
Bad debt losses	445	4,649
Changes in assets and liabilities:		
Contributions receivable	993,141	(1,904,396)
Lease receivable from related party	(44,550)	-
Other assets	(136,272)	(15,079)
Accounts payable and other accrued liabilities	68,898	(22,467)
Deposits held and due to others	40,029	59,870
Annuity payment liability	(28,746)	(26,182)
Net cash provided by (used in) operating activities	587,479	(664,153)
Cash Flows from Investing Activities		
Purchase of land and buildings	(6,222,045)	-
Proceeds from sales of investments	17,829,636	6,679,933
Purchases of investments	(18,058,778)	(6,546,477)
Net cash (used in) provided by investing activities	(6,451,187)	133,456
Cash Flows from Financing Activities		
Proceeds from note payable	4,500,000	-
Principal payments on note payable	(44,066)	-
Contributions restricted for long-term purposes	78,087	9,580
Net cash provided by financing activities	4,534,021	9,580
Net Decrease in Cash and Cash Equivalents	(1,329,687)	(521,117)
Cash and Cash Equivalents - Beginning of year	1,521,514	2,042,631
Cash and Cash Equivalents - End of year	<u>\$ 191,827</u>	<u>\$ 1,521,514</u>
Supplemental Disclosure of Cash Flow Information -		
Cash paid during the year for interest	<u>\$ 75,000</u>	<u>\$ -</u>
Supplemental Disclosure of Noncash Activities		
Donated property	\$ 3,300,000	\$ 120,000
Donated securities	15,200	-

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2014 and 2013

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 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 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, revenues, 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 the amount on deposit at June 30, 2014 and 2013.

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, 2014 and 2013

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

Gifts and Contributions - Contributions received by the Foundation are recorded at fair value. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for a specific purpose are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions of land, buildings, and equipment without donor stipulations concerning the use of such long-lived assets are reported as 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.

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

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

Intentions - The Foundation receives communications from donors indicating that the Foundation has been included in the donor's will or life insurance policy as 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 the 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, 2014 and 2013

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

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

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

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

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

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

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

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

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2014 and 2013

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

Accounting principles generally accepted in the United States of America prescribe 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 percent 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 it is unaware of any tax benefits or liabilities to be recognized at June 30, 2014 and 2013.

The Foundation is no longer subject to examination by taxing authorities for years before 2011. The Foundation does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months.

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.

Functional Allocation of Expenses - The costs of providing the various programs and support services have been summarized on a functional basis in the statement of activities. Certain costs have been allocated among the programs and support services benefited. Although methods of allocation used are considered appropriate, other methods could be used that would produce different amounts. Total fundraising expenses for the year ended June 30, 2014 and 2013 were \$27,927 and \$39,268, respectively. Program expenses on the statements of activities include scholarships and other student aid, institutional support, and guest speakers and lecturers.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including October 13, 2014, which is the date that the financial statements were available to be issued.

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2014 and 2013

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

On September 12, 2014, the Foundation was gifted in-kind real property valued at \$1,915,000 and located on the west end of Portsmouth, Ohio.

Note 2 - Investments

The fair value of investments held by the Foundation at June 30, 2014 and 2013 is summarized as follows:

	2014	2013
U.S. government securities	\$ 764,608	\$ 1,825,471
Foreign bond issues	158,519	-
Mutual funds:		
Equity	6,924,708	1,263,298
Fixed income	2,904,135	2,815,327
Balanced	2,443,553	-
Common stock	2,668,033	7,770,396
Corporate bond issues	978,586	599,697
Total	<u>\$ 16,842,142</u>	<u>\$ 14,274,189</u>

Investment income for the fiscal years ended June 30, 2014 and 2013 is comprised of the following:

	2014	2013
Interest and dividends	\$ 317,713	\$ 276,527
Investment fees	(52,722)	(109,307)
Net realized and unrealized gains on investments	<u>2,326,614</u>	<u>1,638,125</u>
Total	<u>\$ 2,591,605</u>	<u>\$ 1,805,345</u>

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.

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2014 and 2013

Note 3 - Fair Value of Financial Instruments (Continued)

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 - 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 or liability. 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.

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 or liability.

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2014 and 2013

Note 3 - Fair Value of Financial Instruments (Continued)

Assets Measured at Fair Value on a Recurring Basis at June 30, 2014

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, 2014
U.S. government securities	\$ 764,608	\$ -	\$ -	\$ 764,608
Mutual funds:				
Equity	6,924,708	-	-	6,924,708
Fixed income	2,904,135	-	-	2,904,135
Balanced	2,443,553	-	-	2,443,553
Common stock:				
Industrials	307,420	-	-	307,420
Healthcare	317,795	-	-	317,795
Information technology	495,882	-	-	495,882
Energy	257,920	-	-	257,920
Materials	112,564	-	-	112,564
Foreign	260,240	-	-	260,240
Financials	219,676	-	-	219,676
Consumer goods	629,554	-	-	629,554
Real estate	66,982	-	-	66,982
Foreign bond issues	-	158,519	-	158,519
Corporate bond issues	-	978,586	-	978,586
Beneficial interest in trusts	-	-	1,285,326	1,285,326
Total assets	\$ 15,705,037	\$ 1,137,105	\$ 1,285,326	\$ 18,127,468

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2014 and 2013

Note 3 - Fair Value of Financial Instruments (Continued)

Assets Measured at Fair Value on a Recurring Basis at June 30, 2013

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, 2013
U.S. government securities	\$ 1,825,470	\$ -	\$ -	\$ 1,825,470
Mutual funds:				
Equity	1,263,298	-	-	1,263,298
Fixed income	2,815,327	-	-	2,815,327
Common stock:				
Industrials	626,601	-	-	626,601
Healthcare	981,873	-	-	981,873
Information technology	1,410,958	-	-	1,410,958
Energy	762,317	-	-	762,317
Materials	342,480	-	-	342,480
Foreign	1,074,682	-	-	1,074,682
Financials	575,541	-	-	575,541
Consumer goods	1,582,367	-	-	1,582,367
Other	413,578	-	-	413,578
Corporate bond issues	-	599,697	-	599,697
Beneficial interest in trusts	-	-	1,225,717	1,225,717
Total assets	\$ 13,674,492	\$ 599,697	\$ 1,225,717	\$ 15,499,906

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

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) for Beneficial Interest
July 1, 2013	\$ 1,225,717
Change in value of split-interest trusts	59,609
June 30, 2014	<u>\$ 1,285,326</u>
July 1, 2012	\$ 1,144,954
Change in value of split-interest trusts	80,763
June 30, 2013	<u>\$ 1,225,717</u>

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2014 and 2013

Note 3 - Fair Value of Financial Instruments (Continued)

Quantitative Information about Level 3 Fair Value Measurements

The following table summarizes the valuation methods and inputs used to determine fair value at June 30, 2014 for assets measured at fair value on a recurring basis using unobservable inputs (Level 3 inputs):

	Fair Value at June 30, 2014	Fair Value at June 30, 2013	Valuation Technique	Significant Unobservable Inputs Used	Range
Assets - Beneficial interests in trusts	\$ 1,285,326	\$ 1,225,717	Present value of future distributions to be received, IRS published tables	Life expectancy of beneficiaries	3-6 years and discount rate of 2.2 percent

Unrealized gains and losses generated from Level 3 beneficial interests in trusts still held at June 30, 2014 and 2013 and reported in the Foundation's statement of activities were \$59,609 and \$80,763, 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 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 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 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, 2014 and June 30, 2013, there were no transfers between levels of the fair value hierarchy.

Note 4 - Contributions Receivable and Other Assets

Unconditional promises due within one year are recorded at their net realizable value. Historically, unconditional promises to give that are expected to be received in more than one year are discounted using the interest rate listed for the U.S. Six-Month Treasury Bill. The rate at June 30, 2014 and 2013 was 0.06 percent and 0.10 percent, respectively.

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2014 and 2013

Note 4 - Contributions Receivable and Other Assets (Continued)

Gross pledges at June 30, 2014 and 2013 were \$2,313,606 and \$3,336,240. Respectively, the present value of the discount associated with these pledges at June 30, 2014 and 2013 was \$323 and \$3,894.

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

	2014	2013
Less than one year	\$ 2,205,794	\$ 1,386,494
One to five years	28,288	1,945,852
Over five years	79,201	-
Total contributions receivable	2,313,283	3,332,346
Less allowance for uncollectible pledges	(57,832)	(83,309)
Net contributions receivable	<u>\$ 2,255,451</u>	<u>\$ 3,249,037</u>

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 calculated at a provision of 2.5 percent of the gross contributions receivable.

The Foundation received conditional promises to give totaling approximately \$7,915,000 as of June 30, 2014 that have not been recognized as assets in the statements 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 \$110,000 and \$146,000 at June 30, 2014 and 2013, respectively. Related party contribution revenue recognized for the years ended June 30, 2014 and 2013 totaled \$22,750 and \$8,910, respectively.

As of June 30, 2014 and 2013, the Foundation had cash surrender value of insurance policies of \$221,027 and \$206,575, respectively. The face values of these policies as of June 30, 2014 and 2013 were \$1,558,560 and \$1,552,691, respectively, and are not reflected in the statements of net assets.

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2014 and 2013

Note 5 - Property and Equipment

Property and equipment consist of the following:

	2014	2013
Land	\$ 1,693,600	\$ 36,000
Buildings	7,936,400	84,000
Total property and equipment	9,630,000	120,000
Accumulated depreciation	68,079	350
Net property and equipment	<u>\$ 9,561,921</u>	<u>\$ 119,650</u>

The total depreciation expense for the year was \$67,729 and \$350 for the year ended June 30, 2014 and 2013, respectively.

During the current year, the Foundation acquired new properties through two separate purchase transactions. The first transaction occurred on February 14, 2014 to acquire two properties at the combined purchase price of \$210,000.

The second transaction occurred on February 25, 2014 to acquire several properties, known as the Fourth Street Properties, through a bargain-sale transaction. The fair value of the combined properties was recorded at \$9,300,000. The Foundation purchased the Fourth Street Properties at a purchase price of \$6,000,000 and recorded a gift-in-kind contribution for the bargain difference of \$3,300,000. One of the Fourth Street Properties is currently being leased to outside entities.

Note 6 - Split-Interest Agreements

Charitable Remainder Trusts - 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 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 activities. The Foundation's share of assets held in the charitable remainder trusts totaled \$1,285,326 and \$1,225,717 at June 30, 2014 and 2013, 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, 2014 and 2013

Note 6 - Split-Interest Agreements (Continued)

Charitable Gift Annuities - Under charitable gift annuity agreements, all assets are held by the Foundation. Therefore, the Foundation has recorded the donated assets at fair value and the liabilities to the donor or his/her beneficiaries discounted to the present value of the estimated future payments to be distributed by the Foundation to such individuals. The amount of the contribution is the difference between the asset and liability and is recorded as contribution revenue. On an annual basis, the Foundation revalues the liabilities to make distributions to the designated beneficiaries based on actuarial assumptions. The present values of the estimated future payments at June 30, 2014 and 2013 are \$1,136,768 and \$892,241, respectively.

Note 7 - Restricted Net Assets

Temporarily and permanently restricted net assets at June 30, 2014 are restricted for the following purposes:

	Temporarily Restricted	Permanently Restricted
Scholarships and student aid	\$ 1,598,880	\$ 3,648,228
Irrevocable charitable trusts	1,094,152	191,174
University facilities and programs	6,775,823	5,924,985
Total	<u>\$ 9,468,855</u>	<u>\$ 9,764,387</u>

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

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

During the years ended June 30, 2014 and 2013, \$1,397,365 and \$3,519,827, respectively, was released from restrictions.

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2014 and 2013

Note 8 - Rental Income

The Foundation acquired property subject to two lease agreements, one with the University, and one with a third party. The terms of the lease with the University are currently being renegotiated and the lease with the third party is set to expire on June 30, 2015. It is anticipated that a new lease will be executed with the third party during the fiscal year ending June 30, 2015. For the year ending June 30, 2015, future minimum rentals under the leases are expected to be \$510,000. However, as a result of the negotiations, future minimum rentals could vary from the estimated amount.

Note 9 - Note Payable

The Foundation entered into a \$4,500,000 note with an interest rate of 5 percent payable to Hatcher Real Estate, LLC for the purchase of property known as the Fourth Street Properties. The note is secured by the land and buildings. This note is payable in monthly installments of \$29,698. The payments are based on a 20-year amortization schedule and include a balloon payment due at maturity on February 25, 2019 for the remaining balance. The Foundation will have an option to extend the maturity date for a two-year period; however, payments will continue during that time. At June 30, 2014 the outstanding principal balance of the note was \$4,455,934.

Maturities of the note payable at June 30, 2014 are set forth in the following schedule:

Note 10 - Transactions with Shawnee State University

The Foundation made distributions to, or on behalf of, the University of \$826,079 during the year ended June 30, 2014 and \$1,277,215 during the year ended June 30, 2013. Administrative expenses of \$316,647 in fiscal year 2014 and \$240,865 in fiscal year 2013 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. As of June 30, 2014, the outstanding lease due on this arrangement was \$44,550 and is reflected as a lease receivable in the Foundation's statements of net assets; however, the terms of that lease are currently being renegotiated.

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2014 and 2013

Note 11 - Endowment Composition

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

Endowment net asset composition by type of fund as of June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (26,939)	\$ 3,449,263	\$ 9,764,387	\$ 13,186,711
Funds functioning as endowments	553,197	-	-	553,197
Total funds	<u>\$ 526,258</u>	<u>\$ 3,449,263</u>	<u>\$ 9,764,387</u>	<u>\$ 13,739,908</u>

Changes in endowment net assets for the year ended June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets - Beginning of year	\$ 109,249	\$ 2,048,440	\$ 9,686,300	\$ 11,843,989
Investment return	86,374	1,700,601	-	1,786,975
Transfer for underwater investments	5,832	(5,832)	-	-
Total investment return	201,455	3,743,209	9,686,300	13,630,964
Contributions	340,813	-	78,087	418,900
Appropriation of endowment assets for expenditure	(16,010)	(293,946)	-	(309,956)
Net assets - End of year	<u>\$ 526,258</u>	<u>\$ 3,449,263</u>	<u>\$ 9,764,387</u>	<u>\$ 13,739,908</u>

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2014 and 2013

Note 11 - Endowment Composition (Continued)

Endowment net asset composition by type of fund as of June 30, 2013:

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

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	112,255	(112,255)	-	-
Total investment return	124,193	4,391,527	7,758,275	12,273,995
Contributions	-	-	1,928,025	1,928,025
Appropriation of endowment assets for expenditure	(14,944)	(2,343,087)	-	(2,358,031)
Net assets - End of year	<u>\$ 109,249</u>	<u>\$ 2,048,440</u>	<u>\$ 9,686,300</u>	<u>\$ 11,843,989</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.

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2014 and 2013

Note 11 - Endowment Composition (Continued)

As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

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.

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2014 and 2013

Note 11 - 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 \$26,939 and \$32,771 as of June 30, 2014 and 2013, respectively. These deficiencies resulted from unfavorable market fluctuations.

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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Shawnee State University Development Foundation, which comprise the statements of net assets, activities, and cash flows for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated October 13, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Shawnee State University Development 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Shawnee State University Development 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*.

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 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.

Plante & Moran, PLLC

October 13, 2014

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Dave Yost • Auditor of State

SHAWNEE STATE UNIVERSITY 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 18, 2014**