

Shawnee State University Development Foundation

Financial Report

June 30, 2015



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, 2014 through June 30, 2015. 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

December 17, 2015

This page intentionally left blank.

Shawnee State University Development Foundation

Contents

| | |
|---|-------|
| Report Letter | 1-2 |
| Financial Statements | |
| Statements of Net Assets | 3 |
| Statements of Activities | 4-5 |
| Statements of Cash Flows | 6-7 |
| Notes to Financial Statements | 8-26 |
| Report Letter on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 27-28 |

This page intentionally left blank.

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, 2015 and 2014, and the related statement 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 opinions.

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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees
Shawnee State University Development Foundation

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2015 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, 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 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, 2015

Shawnee State University Development Foundation

Statements of Net Assets

| | <u>June 30, 2015</u> | <u>June 30, 2014</u> |
|---|-----------------------------|-----------------------------|
| Assets | | |
| Cash and cash equivalents | \$ 236,209 | \$ 191,827 |
| Investments (Note 2) | 18,256,891 | 16,842,142 |
| Contributions receivable - Net (Note 4) | 715,495 | 2,255,451 |
| Lease receivable from related party (Note 10) | 43,463 | 44,550 |
| Beneficial interest in trusts held by others (Note 6) | 1,016,169 | 1,285,326 |
| Cash surrender value of life insurance (Note 4) | 229,522 | 221,027 |
| Other assets | 95,560 | 136,272 |
| Net property and equipment (Note 5) | <u>11,250,522</u> | <u>9,561,921</u> |
| Total assets | <u>\$ 31,843,831</u> | <u>\$ 30,538,516</u> |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accounts payable | \$ 16,677 | \$ 17,725 |
| Accrued real estate tax | 67,974 | 29,827 |
| Other payables | - | 25,000 |
| Deferred revenue | 11,552 | - |
| Deposits held and due to others | 69,233 | 211,677 |
| Annuity payment liability (Note 6) | 251,176 | 269,181 |
| Note payable (Note 9) | <u>4,319,250</u> | <u>4,455,934</u> |
| Total liabilities | <u>4,735,862</u> | <u>5,009,344</u> |
| Net Assets | | |
| Unrestricted | 8,437,951 | 6,295,930 |
| Temporarily restricted (Note 7) | 8,515,140 | 9,468,855 |
| Permanently restricted (Note 7) | <u>10,154,878</u> | <u>9,764,387</u> |
| Total net assets | <u>27,107,969</u> | <u>25,529,172</u> |
| Total liabilities and net assets | <u>\$ 31,843,831</u> | <u>\$ 30,538,516</u> |

Shawnee State University Development Foundation

Statements of Activities Year Ended June 30, 2015

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total 2015 | Total 2014 |
|--|--------------------|---------------------------|---------------------------|---------------------|---------------------|
| Revenues and Other Support | | | | | |
| Contributions | \$ 1,987,127 | \$ 444,037 | \$ 311,194 | \$ 2,742,358 | \$ 3,893,078 |
| Investment income - Net | (30,720) | 378,751 | - | 348,031 | 2,591,605 |
| Change in value of split-interest agreements | (18,671) | 475,872 | 79,297 | 536,498 | 91,825 |
| Losses for uncollectible contributions | (15,626) | (95,245) | - | (110,871) | (445) |
| Loss on sale of assets | (28,779) | - | - | (28,779) | - |
| Other income | 3,500 | - | - | 3,500 | 3,000 |
| Rental income | 412,205 | - | - | 412,205 | 182,987 |
| Net assets released from restrictions | 2,157,130 | (2,157,130) | - | - | - |
| Total revenues and other support | 4,466,166 | (953,715) | 390,491 | 3,902,942 | 6,762,050 |
| Expenses and Losses | | | | | |
| Scholarships and other student aid | 351,161 | - | - | 351,161 | 320,264 |
| Institutional support | 874,884 | - | - | 874,884 | 435,530 |
| Guest speakers and lecturers | 11,924 | - | - | 11,924 | 8,098 |
| Management and general expenses | 463,400 | - | - | 463,400 | 388,047 |
| Rental expenses | 622,776 | - | - | 622,776 | 204,392 |
| Total expenses and losses | 2,324,145 | - | - | 2,324,145 | 1,356,331 |
| Change in Net Assets | 2,142,021 | (953,715) | 390,491 | 1,578,797 | 5,405,719 |
| Net Assets - Beginning of year | 6,295,930 | 9,468,855 | 9,764,387 | 25,529,172 | 20,123,453 |
| Net Assets - End of year | \$8,437,951 | \$8,515,140 | \$ 10,154,878 | \$27,107,969 | \$25,529,172 |

Shawnee State University Development Foundation

Statement of Activities Year Ended June 30, 2014

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|---------------------|---------------------------|---------------------------|---------------------|
| Revenues and Other Support | | | | |
| Contributions | \$ 3,424,576 | \$ 429,784 | \$ 38,718 | \$ 3,893,078 |
| Investment income - Net | 234,203 | 2,357,402 | - | 2,591,605 |
| Change in value of split-interest agreements | 2,632 | 49,824 | 39,369 | 91,825 |
| Losses for uncollectible contributions | (445) | - | - | (445) |
| Other income | 3,000 | - | - | 3,000 |
| Rental income | 182,987 | - | - | 182,987 |
| Net assets released from restrictions | 1,397,365 | (1,397,365) | - | - |
| Total revenues and other support | 5,244,318 | 1,439,645 | 78,087 | 6,762,050 |
| Expenses and Losses | | | | |
| Scholarships and other student aid | 320,264 | - | - | 320,264 |
| Institutional support | 435,530 | - | - | 435,530 |
| Guest speakers and lecturers | 8,098 | - | - | 8,098 |
| Management and general expenses | 388,047 | - | - | 388,047 |
| Rental expenses | 204,392 | - | - | 204,392 |
| Total expenses and losses | 1,356,331 | - | - | 1,356,331 |
| Change in Net Assets | 3,887,987 | 1,439,645 | 78,087 | 5,405,719 |
| Net Assets - Beginning of year | 2,407,943 | 8,029,210 | 9,686,300 | 20,123,453 |
| Net Assets - End of year | \$ 6,295,930 | \$ 9,468,855 | \$ 9,764,387 | \$25,529,172 |

Shawnee State University Development Foundation

Statements of Cash Flows

| | Year Ended | |
|---|---------------|---------------|
| | June 30, 2015 | June 30, 2014 |
| Cash Flows from Operating Activities | | |
| Change in net assets | \$ 1,578,797 | \$ 5,405,719 |
| Adjustments to reconcile change in net assets to net cash from operating activities: | | |
| Depreciation | 232,146 | 67,729 |
| Amortization | 2,033 | 635 |
| Noncash contributions | (1,989,070) | (3,315,239) |
| Realized and unrealized losses (gains) on investments | 45,765 | (2,326,614) |
| Contributions restricted for long-term purposes | (390,491) | (78,087) |
| Bad debt losses | 110,871 | 445 |
| Loss on sale of assets | 28,779 | - |
| Changes in assets and liabilities: | | |
| Surrender value of life insurance | (8,495) | - |
| Funds held in trust by others | 269,157 | (59,609) |
| Contributions receivable | 1,429,085 | 993,141 |
| Lease receivable from related party | 1,087 | (44,550) |
| Other assets | 36,647 | (136,272) |
| Accounts payable and other accrued liabilities | 12,099 | 68,898 |
| Deferred revenue | 11,552 | - |
| Deposits held and due to others | (142,444) | 40,029 |
| Annuity payment liability | (18,005) | (28,746) |
| Net cash provided by operating activities | 1,209,513 | 587,479 |
| Cash Flows from Investing Activities | | |
| Purchase of land, buildings, and equipment | (5,747) | (6,222,045) |
| Change in lease receivable | 19,143 | - |
| Net proceeds from sale of assets | 17,311 | - |
| Bad debt loss on rental revenue | 12,013 | - |
| Proceeds from sales of investments | 6,918,564 | 17,829,636 |
| Purchases of investments | (8,380,221) | (18,058,778) |
| Net cash used in investing activities | (1,418,937) | (6,451,187) |
| Cash Flows from Financing Activities | | |
| Proceeds from note payable | - | 4,500,000 |
| Principal payments on note payable | (136,684) | (44,066) |
| Contributions restricted for long-term purposes | 390,491 | 78,087 |
| Net cash provided by financing activities | 253,807 | 4,534,021 |

Shawnee State University Development Foundation

Statements of Cash Flows (Continued)

| | Year Ended | |
|---|--------------------------|--------------------------|
| | <u>June 30, 2015</u> | <u>June 30, 2014</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | \$ 44,382 | \$ (1,329,687) |
| Cash and Cash Equivalents - Beginning of year | <u>191,827</u> | <u>1,521,514</u> |
| Cash and Cash Equivalents - End of year | <u>\$ 236,209</u> | <u>\$ 191,827</u> |
| Supplemental Disclosure of Cash Flow Information - | | |
| Cash paid during the year for interest | <u>\$ 219,693</u> | <u>\$ 75,000</u> |
| Supplemental Disclosure of Noncash Activities | | |
| Donated property | \$ 1,932,013 | \$ 3,300,000 |
| Donated securities | 57,057 | 15,200 |

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2015 and 2014

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 \$250,000. As of June 30, 2015 and 2014, 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, 2015 and 2014

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, 2015 and 2014

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).

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

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

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2015 and 2014

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

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

Functional Allocation of Expenses - The costs of providing the various programs and support services have been summarized on a functional basis in the statement of activities. Certain costs have been allocated among the programs and support services 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, 2015 and 2014 were \$19,608 and \$27,927, respectively. Program expenses on the statements of activities include scholarships and other student aid, institutional support, and guest speakers and lecturers.

Upcoming Accounting Pronouncement - During May 2014, the Financial Accounting Standards Board released Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in the ASU clarify the principles for recognizing revenue and develop a common revenue standard for U.S. GAAP that removes inconsistencies and weaknesses in revenue requirements, provides a more robust framework for addressing revenue issues, improves comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets, provides more useful information to users of financial statements through improved disclosure requirements, and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. The Organization will be required to adopt and implement this accounting update as of and for the year ending June 30, 2019. Management has not yet assessed the effect of this accounting standards update on the financial statements.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including October 9, 2015, which is the date that the financial statements were available to be issued.

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2015 and 2014

Note 2 - Investments

The fair value of investments held by the Foundation at June 30, 2015 and 2014 is summarized as follows:

| | 2015 | 2014 |
|----------------------------|----------------------|----------------------|
| U.S. government securities | \$ 852,857 | \$ 764,608 |
| Foreign bond issues | 174,514 | 158,519 |
| Mutual funds: | | |
| Equity | 7,938,681 | 6,924,708 |
| Fixed income | 3,205,885 | 2,904,135 |
| Balanced | 2,374,615 | 2,443,553 |
| Common stock | 2,554,215 | 2,668,033 |
| Corporate bond issues | 1,156,124 | 978,586 |
| Total | <u>\$ 18,256,891</u> | <u>\$ 16,842,142</u> |

Investment income for the fiscal years ended June 30, 2015 and 2014 is comprised of the following:

| | 2015 | 2014 |
|--|-------------------|---------------------|
| Interest and dividends | \$ 429,696 | \$ 317,713 |
| Investment fees | (35,900) | (52,722) |
| Net realized and unrealized (losses) gains on investments | <u>(45,765)</u> | <u>2,326,614</u> |
| Total | <u>\$ 348,031</u> | <u>\$ 2,591,605</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, 2015 and 2014

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, 2015 and 2014

Note 3 - Fair Value of Financial Instruments (Continued)

Assets Measured at Fair Value on a Recurring Basis at June 30, 2015

| 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, 2015 |
|-------------------------------|---|--|--|-----------------------------|
| U.S. government securities | \$ 852,857 | \$ - | \$ - | \$ 852,857 |
| Mutual funds: | | | | |
| Equity | 7,938,681 | - | - | 7,938,681 |
| Fixed income | 3,205,885 | - | - | 3,205,885 |
| Balanced | 2,374,615 | - | - | 2,374,615 |
| Common stock: | | | | |
| Industrials | 309,526 | - | - | 309,526 |
| Healthcare | 401,594 | - | - | 401,594 |
| Information technology | 528,835 | - | - | 528,835 |
| Energy | 86,307 | - | - | 86,307 |
| Materials | 125,971 | - | - | 125,971 |
| Foreign | 167,959 | - | - | 167,959 |
| Financials | 175,045 | - | - | 175,045 |
| Consumer goods | 690,267 | - | - | 690,267 |
| Real estate | 68,711 | - | - | 68,711 |
| Foreign bond issues | - | 174,514 | - | 174,514 |
| Corporate bond issues | - | 1,156,124 | - | 1,156,124 |
| Beneficial interest in trusts | - | - | 1,016,169 | 1,016,169 |
| Total assets | \$ 16,926,253 | \$ 1,330,638 | \$ 1,016,169 | \$ 19,273,060 |

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2015 and 2014

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, 2015 and 2014

Note 3 - Fair Value of Financial Instruments (Continued)

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 | |
|--|---|-----------------|
| | <hr/> | |
| July 1, 2014 | \$ | 1,285,326 |
| Receipts from trust | | (509,203) |
| Change in value of split-interest trusts | | <hr/> 240,046 |
| June 30, 2015 | <hr/> \$ | <hr/> 1,016,169 |
| July 1, 2013 | \$ | 1,225,717 |
| Change in value of split-interest trusts | | <hr/> 59,609 |
| June 30, 2014 | <hr/> \$ | <hr/> 1,285,326 |

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, 2015 for assets measured at fair value on a recurring basis using unobservable inputs (Level 3 inputs):

| | Fair Value at June 30, 2015 | Fair Value at June 30, 2014 | Valuation Technique | Significant Unobservable Inputs Used | Range |
|---|--------------------------------|--------------------------------|--|--|---|
| Assets - Beneficial interests in trusts | \$ 1,016,169 | \$ 1,285,326 | Present value of future distributions to be received, IRS published tables | Life expectancy of beneficiaries | 3-6 years and discount rates ranged from 5.0% to 7.6% |

Unrealized gains and losses generated from Level 3 beneficial interests in trusts still held at June 30, 2015 and 2014 and reported in the Foundation's statement of activities were \$240,046 and \$59,609, 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.

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2015 and 2014

Note 3 - Fair Value of Financial Instruments (Continued)

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, 2015 and June 30, 2014, 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 was 0.06 percent. During the current year the Foundation revaluated the method in which they calculate the discounted receivables. For the year ending June 30, 2015, and years going forward, the Foundation will use a discount rate equal to the Moody AAA Bond rate at the date of gift. The discount rates for June 30, 2015 range from 3.6 percent to 5.88 percent.

Gross pledges at June 30, 2015 and 2014 were \$759,076 and \$2,313,606. Respectively, the present value of the discount associated with these pledges at June 30, 2015 and 2014 was \$15,357 and \$323.

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

| | 2015 | 2014 |
|--|------------|--------------|
| Less than one year | \$ 646,404 | \$ 2,205,794 |
| One to five years | 83,015 | 28,288 |
| Over five years | 14,300 | 79,201 |
| Total contributions receivable | 743,719 | 2,313,283 |
| Less allowance for uncollectible pledges | (28,224) | (57,832) |
| Net contributions receivable | \$ 715,495 | \$ 2,255,451 |

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.

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2015 and 2014

Note 4 - Contributions Receivable and Other Assets (Continued)

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 \$7,605,000 as of June 30, 2015 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 \$38,000 and \$110,000 at June 30, 2015 and 2014, respectively. Related party contribution revenue recognized for the years ended June 30, 2015 and 2014 totaled \$4,540 and \$22,750, respectively.

As of June 30, 2015 and 2014, the Foundation had cash surrender value of insurance policies of \$229,522 and \$221,027, respectively. The face values of these policies as of June 30, 2015 and 2014 were \$1,561,306 and \$1,558,560, respectively, and are not reflected in the statements of net assets.

Note 5 - Property and Equipment

Property and equipment consist of the following:

| | 2015 | 2014 |
|------------------------------|---------------|--------------|
| Land | \$ 2,000,770 | \$ 1,693,600 |
| Buildings | 9,544,230 | 7,936,400 |
| Equipment and furniture | 5,747 | - |
| Total property and equipment | 11,550,747 | 9,630,000 |
| Accumulated depreciation | 300,225 | 68,079 |
| Net property and equipment | \$ 11,250,522 | \$ 9,561,921 |

The total depreciation expense for the year was \$232,146 and \$67,729 for the year ended June 30, 2015 and 2014, respectively.

During the current year, the Foundation was the recipient of real property known as the Tauren property. The Tauren property was donated on September 12, 2014 with a fair value of \$1,915,000 and was recorded as a gift-in-kind contribution.

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2015 and 2014

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 \$1,016,169 and \$1,285,326 at June 30, 2015 and 2014, respectively, and is reported at fair value in the Foundation's statements of net assets.

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, 2015 and 2014 are \$251,176 and \$269,181, respectively. These amounts are recognized as a liability in the Foundation's statement of net assets.

Note 7 - Restricted Net Assets

Temporarily and permanently restricted net assets at June 30, 2015 are restricted for the following purposes:

Temporarily and Permanently Restricted Net Assets at June 30, 2015

| | Temporarily Restricted | Permanently Restricted |
|------------------------------------|---------------------------|---------------------------|
| Scholarships and student aid | \$ 1,444,044 | \$ 4,048,804 |
| Irrevocable charitable trusts | 896,809 | 119,360 |
| University facilities and programs | 6,174,287 | 5,986,714 |
| Total | <u>\$ 8,515,140</u> | <u>\$ 10,154,878</u> |

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2015 and 2014

Note 7 - Restricted Net Assets (Continued)

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

Temporarily and Permanently Restricted Net Assets at June 30, 2014

| | 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 | <u>6,775,823</u> | <u>5,924,985</u> |
| Total | <u>\$ 9,468,855</u> | <u>\$ 9,764,387</u> |

During the years ended June 30, 2015 and 2014, \$2,128,351 and \$1,397,365, respectively, was released from restrictions.

Note 8 - Rental Income

The Foundation acquired two buildings subject to two lease agreements, one with the University, and one with a third party. The terms of both leases were renewed during the current year.

The lease with the University was renewed with lease terms effective August 18, 2014 through August 17, 2029. The Foundation, as part of the renewal, extended to the University a "Rent Free Holiday" for the period of February 25, 2014 to August 17, 2014.

The third party lease was renewed with an effective date of April 1, 2015. The renewal term will be for the period of July 1, 2015 to June 30, 2017.

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2015 and 2014

Note 8 - Rental Income (Continued)

The following is a schedule by years of future minimum rentals required under the leases at June 30, 2015:

| Years Ending June 30 | Amount |
|-------------------------|---------------------|
| 2016 | \$ 422,331 |
| 2017 | 409,550 |
| 2018 | 87,610 |
| 2019 | 87,610 |
| 2020 | 87,610 |
| Thereafter | <u>788,484</u> |
| Total | <u>\$ 1,883,195</u> |

Note 9 - Note Payable

The Foundation entered into a \$4,500,000 note with an interest rate of 5 percent payable to Hatcher Real Estate, LLC for the purchase of property known as the Fourth Street Properties. The note is secured by the land and buildings. This note is payable in monthly installments of \$29,698. The payments are based on a 20-year amortization schedule and include a balloon payment due at maturity on February 25, 2019 for the remaining balance. The Foundation will have an option to extend the maturity date for a two-year period; however, payments will continue during that time. At June 30, 2015 and 2014 the outstanding principal balance of the note was \$4,319,250 and \$4,455,934, respectively.

Maturities of the note payable at June 30, 2015 are set forth in the following schedule:

| Years Ending June 30 | Amount |
|-------------------------|---------------------|
| 2016 | \$ 143,677 |
| 2017 | 151,027 |
| 2018 | 158,754 |
| 2019 | 166,876 |
| 2020 | 175,414 |
| Thereafter | <u>3,523,502</u> |
| Total | <u>\$ 4,319,250</u> |

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2015 and 2014

Note 10 - Transactions with Shawnee State University

The Foundation made distributions to, or on behalf of, the University of \$1,329,223 during the year ended June 30, 2015 and \$826,079 during the year ended June 30, 2014. Administrative expenses of \$367,391 in fiscal year 2015 and \$316,647 in fiscal year 2014 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 \$43,463 and \$44,550 as of June 30, 2015 and 2014, respectively, and is reflected as a lease receivable in the Foundation's statements of net assets.

Note 11 - Endowment Composition

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

Endowment net asset composition by type of fund as of June 30, 2015:

Endowment Net Asset Composition by Type of Fund as of June 30, 2015

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|----------------------------------|-------------------|------------------------|------------------------|----------------------|
| Donor-restricted endowment funds | \$ (29,476) | \$ 3,292,811 | \$ 10,154,878 | \$ 13,418,213 |
| Funds functioning as endowments | 511,518 | - | - | 511,518 |
| Total funds | <u>\$ 482,042</u> | <u>\$ 3,292,811</u> | <u>\$ 10,154,878</u> | <u>\$ 13,929,731</u> |

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2015 and 2014

Note 11 - Endowment Composition (Continued)

Changes in endowment net assets for the year ended June 30, 2015:

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2015

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|-------------------|---------------------------|---------------------------|----------------------|
| Net assets - Beginning of year | \$ 526,258 | \$ 3,449,263 | \$ 9,764,387 | \$ 13,739,908 |
| Investment return | 12,634 | 286,061 | - | 298,695 |
| Transfer for underwater investments | (39,481) | 39,481 | - | - |
| Total investment return | 499,411 | 3,774,805 | 9,764,387 | 14,038,603 |
| Contributions | - | - | 390,491 | 390,491 |
| Appropriation of endowment assets for expenditure | (17,369) | (481,994) | - | (499,363) |
| Net assets - End of year | <u>\$ 482,042</u> | <u>\$ 3,292,811</u> | <u>\$ 10,154,878</u> | <u>\$ 13,929,731</u> |

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

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> |

Shawnee State University Development Foundation

Notes to Financial Statements June 30, 2015 and 2014

Note 11 - Endowment Composition (Continued)

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

Changes in Endowment Net Assets for the Fiscal 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 | <u>5,832</u> | <u>(5,832)</u> | <u>-</u> | <u>-</u> |
| 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 | <u>(16,010)</u> | <u>(293,946)</u> | <u>-</u> | <u>(309,956)</u> |
| Net assets - End of year | <u>\$ 526,258</u> | <u>\$ 3,449,263</u> | <u>\$ 9,764,387</u> | <u>\$ 13,739,908</u> |

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

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, 2015 and 2014

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, 2015 and 2014

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 \$66,420 and \$26,939 as of June 30, 2015 and 2014, 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, 2015, and the related notes to the financial statements, and have issued our report thereon dated October 9, 2015.

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 9, 2015



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
DECEMBER 29, 2015**