

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

**FINANCIAL STATEMENTS**  
June 30, 2011 and 2010





# Dave Yost • Auditor of State

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

We have reviewed the *Report of Independent Auditors* of the Shawnee State University Development Foundation, Scioto County, prepared by Crowe Horwath LLP, for the audit period July 1, 2010 through June 30, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

November 29, 2011

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SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION

Portsmouth, Ohio

FINANCIAL STATEMENTS

June 30, 2011 and 2010

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## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
Shawnee State University Development Foundation  
Portsmouth, Ohio

We have audited the accompanying statements of net assets of Shawnee State University Development Foundation (a not-for-profit component unit of Shawnee State University) as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Shawnee State University Development Foundation's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shawnee State University Development Foundation as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2011, on our consideration of the Foundation's internal control over financial reporting and 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* and should be considered in assessing results of our audit.



Crowe Horwath LLP

Columbus, Ohio  
October 14, 2011

SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION  
STATEMENTS OF NET ASSETS  
June 30, 2011 and 2010

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	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,977,515	\$ 1,717,968
Investments	13,205,361	10,623,465
Contributions receivable	425,659	1,152,807
Beneficial interest in trusts held by others	1,156,011	1,007,884
Other assets	<u>183,200</u>	<u>169,780</u>
Total assets	<u>\$ 16,947,746</u>	<u>\$ 14,671,904</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable	\$ 3,809	\$ 7,965
Deposits held and due to others	92,707	94,489
Annuity payment liability	<u>467,438</u>	<u>462,102</u>
Total liabilities	<u>563,954</u>	<u>564,556</u>
Net assets		
Unrestricted	156,927	(565,252)
Temporarily restricted	8,472,377	7,189,937
Permanently restricted	<u>7,754,488</u>	<u>7,482,663</u>
Total net assets	<u>16,383,792</u>	<u>14,107,348</u>
Total liabilities and net assets	<u>\$ 16,947,746</u>	<u>\$ 14,671,904</u>

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See accompanying notes to financial statements.



SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION  
 STATEMENTS OF ACTIVITIES  
 Year ended June 30, 2011 with comparative 2010 totals

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2011</u>	<u>Total 2010</u>
<b>Revenues, gains and other support</b>					
Contributions	\$ 33,117	\$ 429,031	\$ 271,825	\$ 733,973	\$ 1,323,524
Investment income, net	844,730	1,551,921	-	2,396,651	1,089,551
Losses for uncollectable contributions	-	(12,079)	-	(12,079)	(105,795)
Net assets released from restrictions	<u>686,433</u>	<u>(686,433)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>1,564,280</u>	<u>1,282,440</u>	<u>271,825</u>	<u>3,118,545</u>	<u>2,307,280</u>
<b>Expenses and losses</b>					
Scholarships and other student aid	211,963	-	-	211,963	173,866
Institutional support	428,802	-	-	428,802	551,682
Guest speakers and lecturers	11,447	-	-	11,447	12,476
Management and general expenses	<u>189,889</u>	<u>-</u>	<u>-</u>	<u>189,889</u>	<u>182,631</u>
Total expenses and losses	<u>842,101</u>	<u>-</u>	<u>-</u>	<u>842,101</u>	<u>920,655</u>
<b>Change in net assets</b>	722,179	1,282,440	271,825	2,276,444	1,386,625
Net assets at beginning of year	<u>(565,252)</u>	<u>7,189,937</u>	<u>7,482,663</u>	<u>14,107,348</u>	<u>12,720,723</u>
<b>Net assets at end of year</b>	<u>\$ 156,927</u>	<u>\$ 8,472,377</u>	<u>\$ 7,754,488</u>	<u>\$ 16,383,792</u>	<u>\$14,107,348</u>

See accompanying notes to financial statements.

SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION  
STATEMENT OF ACTIVITIES  
Year ended June 30, 2010

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	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2010</u>
<b>Revenues, gains and other support</b>				
Contributions	\$ 39,099	\$ 610,906	\$ 673,519	\$ 1,323,524
Investment income, net	809,314	280,237	-	1,089,551
Losses for uncollectable contributions	(488)	(105,307)	-	(105,795)
Net assets released from restrictions	<u>470,358</u>	<u>(470,358)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>1,318,283</u>	<u>315,478</u>	<u>673,519</u>	<u>2,307,280</u>
<b>Expenses and losses</b>				
Scholarships and other student aid	173,866	-	-	173,866
Institutional support	551,682	-	-	551,682
Guest speakers and lecturers	12,476	-	-	12,476
Management and general expenses	<u>182,631</u>	<u>-</u>	<u>-</u>	<u>182,631</u>
Total expenses and losses	<u>920,655</u>	<u>-</u>	<u>-</u>	<u>920,655</u>
<b>Change in net assets</b>	397,628	315,478	673,519	1,386,625
Net assets at beginning of year	<u>(962,880)</u>	<u>6,874,459</u>	<u>6,809,144</u>	<u>12,720,723</u>
Net assets at end of year	<u>\$ (565,252)</u>	<u>\$ 7,189,937</u>	<u>\$7,482,663</u>	<u>\$ 14,107,348</u>

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See accompanying notes to financial statements.

SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION  
 STATEMENTS OF CASH FLOWS  
 June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 2,276,444	\$ 1,386,625
Adjustments to reconcile change in net assets to net cash from operating activities		
Non-cash contributions	-	(14,757)
Realized and unrealized (gains) on investments	(2,266,618)	(951,960)
Funds held in trust by others	(148,127)	7,068
Contributions restricted for long-term purposes	(271,825)	(673,519)
Bad debt losses	-	105,795
Changes in assets and liabilities		
Contributions receivable	727,148	(290,531)
Contracts receivable	-	50,000
Other assets	(12,353)	(11,051)
Accounts payable	(4,156)	1,335
Deposits held and due to others	(1,782)	24,277
Due to Shawnee State University	-	(200,000)
Annuity obligations	<u>5,336</u>	<u>(11,750)</u>
Net cash from operating activities	304,067	(578,468)
<b>Cash flows from investing activities</b>		
Proceeds from sales of investments	4,008,798	4,014,759
Purchase of investments	<u>(4,325,143)</u>	<u>(4,702,103)</u>
Net cash from investing activities	(316,345)	(687,344)
<b>Cash flows from financing activities</b>		
Contributions restricted for long-term purposes	<u>271,825</u>	<u>673,519</u>
Net cash from financing activities	<u>271,825</u>	<u>673,519</u>
Net change in cash and cash equivalents	259,547	(592,293)
Cash and cash equivalents, beginning of year	<u>1,717,968</u>	<u>2,310,261</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 1,977,515</u>	<u>\$ 1,717,968</u>

See accompanying notes to financial statements.

SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010

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**NOTE 1 - SIGNIFICANT ACCOUNTING AND REPORTING POLICIES**

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

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

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

*Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that may or will be met by either actions of the Foundation and/or the passage of time.

*Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that the Foundation maintain them permanently. Generally the donors of these assets permit the Foundation to use all of, or part of, the income earned on related investments for general or specific purposes.

Cash and Cash Equivalents: The Foundation considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Investments: Investments are carried at fair value. Investments received by gifts are recorded at fair value at the date of gift. Realized investment gains and losses represent the difference between the proceeds on sales of investments and their cost when acquired. Investment return includes interest, dividends, and both realized and unrealized gains and losses.

In accordance with accounting principles generally accepted in the United States of America ("GAAP"), the Foundation has recorded net appreciation (both realized and unrealized) on endowment funds as unrestricted net assets unless the use of such income has been temporarily or permanently restricted by the donor or by law. In cases where such donor-imposed restrictions exist, net appreciation is recorded in the same manner as the corresponding income.

The Foundation's endowment consists of assets, which are invested to provide income to support education and related activities, either as a result of donor-imposed restrictions or as a result of designations by the Board of Trustees. Endowment contributions are generally invested on a pooled basis and managed so as to achieve maximum long-term total return.

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

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

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SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010

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

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

During fiscal year 1990, the Foundation was awarded \$500,000 by the U. S. Department of Education for an Endowment Challenge Grant. Significant provisions of the Grant required the Foundation to secure \$500,000 in matching funds from private sources. The Foundation is temporarily restricted from spending more than 50% of the income of the investment of the Endowment Challenge Grant for a twenty-year period, which ended April 30, 2010. After this date, all income earned and the Grant's corpus may be spent by the Foundation for educational purposes.

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

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

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

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

GAAP prescribes recognition thresholds and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Tax benefits will be recognized only if a tax position is more-likely-than-not sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized will be the largest amount of tax benefit that is greater than 50% likely being realized on examination. For tax positions not meeting the more-likely-than-not test, no tax benefit will be recorded. Management has concluded that they are unaware of any tax benefits or liabilities to be recognized at June 30, 2011.

The Foundation would recognize interest and penalties related to unrecognized tax benefits in interest and income tax expense, respectively. The Foundation has no amounts accrued for interest or penalties for the years ended June 30, 2011 and 2010. The Foundation is no longer subject to examination by taxing authorities for years before 2008. The Foundation does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2011 and 2010

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

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2011 to determine the need for any adjustments or disclosures within the audited financial statements for the year ended June 30, 2011. Management has performed their analysis through October 14, 2011, the date the financial statements were available to be issued.

**NOTE 2 - INVESTMENTS**

The fair value of investments held by the Foundation at June 30, 2011 and 2010 is summarized as follows:

	<u>2011</u>	<u>2010</u>
United States Government securities	\$ 1,367,146	\$ 1,243,499
Mutual funds		
Equity	2,749,453	2,150,658
Fixed income	1,534,549	1,202,227
Common stock	6,756,254	5,261,522
Corporate bond issues	<u>797,959</u>	<u>765,559</u>
Total	<u>\$ 13,205,361</u>	<u>\$ 10,623,465</u>

Investment income for the fiscal years ended June 30, 2011 and 2010 is composed of the following:

	<u>2011</u>	<u>2010</u>
Interest and dividends	\$ 237,790	\$ 219,114
Investment fees	(107,757)	(81,523)
Net realized and unrealized gains (losses) on investments	<u>2,226,618</u>	<u>951,960</u>
Total	<u>\$ 2,396,651</u>	<u>\$ 1,089,551</u>

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

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SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010

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

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

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

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

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

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

Assets Measured on a Recurring Basis:

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2011			
U.S. Government securities	\$ 1,367,146	\$ -	\$ -
Mutual funds		-	-
Equity	2,749,453	-	-
Fixed income	1,534,549	-	-
Common stock			
Industrials	132,224	-	-
Healthcare	235,342	-	-
Information technology	1,062,754	-	-
Energy	196,013	-	-
Materials	375,248	-	-
Foreign	833,647	-	-
Financials	573,011	-	-
Consumer goods	2,772,608	-	-
Other	575,407	-	-
Corporate bond issues	-	797,959	-
Beneficial interest in trusts	-	-	1,156,011
	<u>\$12,407,402</u>	<u>\$ 797,959</u>	<u>\$1,156,011</u>

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SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010

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

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2010			
U.S. Government securities	\$ 1,243,499	\$ -	\$ -
Mutual funds		-	-
Equity	2,150,658	-	-
Fixed income	1,202,227	-	-
Common stock			
Industrials	558,308	-	-
Healthcare	690,881	-	-
Information technology	1,210,912	-	-
Energy	288,787	-	-
Materials	268,015	-	-
Foreign	547,168	-	-
Financials	451,643	-	-
Consumer goods	1,147,254	-	-
Other	98,554	-	-
Corporate bond issues	-	765,559	-
Beneficial interest in trusts	-	-	1,007,884
	<u>\$ 9,857,906</u>	<u>\$ 765,559</u>	<u>\$ 1,007,884</u>

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, 2010	\$ 1,007,884
Change in value of split-interest trusts	<u>148,127</u>
June 30, 2011	<u>\$ 1,156,011</u>
July 1, 2009	\$ 1,014,952
Change in value of split-interest trusts	<u>(7,068)</u>
June 30, 2010	<u>\$ 1,007,884</u>

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

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SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010

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

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

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

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

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

	<u>2011</u>	<u>2010</u>
Less than one year	\$ 46,053	\$ 606,349
One to five years	<u>390,520</u>	<u>576,017</u>
Total contributions receivable	436,573	1,182,366
Less: Provision for uncollectible pledges	<u>(10,914)</u>	<u>(29,559)</u>
Net contributions receivable	<u>\$ 425,659</u>	<u>\$ 1,152,807</u>

The Foundation received conditional promises to give totaling approximately \$9,465,309 as of June 30, 2011 that have not been recognized as assets in the statement of financial position. These gifts are primarily in the form of bequests and insurance pledges which are deemed conditional due to their revocable nature.

As of June 30, 2011 and 2010, the Foundation had cash surrender value of insurance policies of \$183,200 and \$169,780, respectively. The face value of these policies as of June 30, 2011 of \$1,552,691 is not reflected in the statement of financial position.

**NOTE 5 - SPLIT-INTEREST AGREEMENTS**

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

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

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SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010

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**NOTE 6 - RESTRICTED NET ASSETS**

Temporarily and permanently restricted net assets at June 30, 2011 are restricted for the following purposes:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Presidents Research Capital Bldg	\$ 1,974,171	\$ -
Scholarships and student aid	1,185,428	3,526,237
Irrevocable charitable trusts	949,175	206,836
University facilities & programs	<u>4,363,603</u>	<u>4,021,415</u>
Total	<u>\$ 8,472,377</u>	<u>\$ 7,754,488</u>

Temporarily and permanently restricted net assets at June 30, 2010 are restricted for the following purposes:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Federal matching grant funds	\$ 1,434,652	\$ -
Scholarships and student aid	848,462	3,351,473
Irrevocable charitable trusts	846,273	161,611
University facilities & programs	<u>4,060,550</u>	<u>3,969,579</u>
Total	<u>\$ 7,189,937</u>	<u>\$ 7,482,663</u>

During the years ended June 30, 2011 and 2010, \$686,433 and \$470,358, respectively, were released from restrictions and utilized for Shawnee State University purposes.

**NOTE 7 - CONCENTRATION OF CREDIT RISK**

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

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

**NOTE 8 - DISTRIBUTIONS TO SHAWNEE STATE UNIVERSITY**

The Foundation made distributions to, or on behalf of the University of \$652,212 during the year ended June 30, 2011 and \$738,024 during the year ended June 30, 2010. Administrative expenses of \$189,889 in fiscal year 2011 and \$182,631 in fiscal year 2010 were reimbursed to Shawnee State University for direct costs, including an allocation of salary and benefits, incurred in the management of the Foundation's endowment funds.

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SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010

**NOTE 9 - ENDOWMENT COMPOSITION**

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

Endowment net asset composition by type of fund as of June 30, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Donor-restricted endowment funds	\$ (58,537)	\$ 1,493,327	\$ 7,754,488	\$ 8,761,674
Funds functioning as endowment	<u>128,662</u>	<u>1,974,171</u>	<u>-</u>	<u>2,530,617</u>
Total funds	<u>\$ 70,305</u>	<u>\$ 3,467,498</u>	<u>\$ 7,754,488</u>	<u>\$ 11,292,291</u>

Changes in endowment net assets for year ended June 30, 2011.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Net assets, beginning of year	\$ (486,141)	\$ 2,154,863	\$ 7,482,663	\$ 9,151,385
Investment return	54,625	2,042,063	-	2,096,688
Recovery of underwater investments	<u>757,139</u>	<u>(757,139)</u>	<u>-</u>	<u>-</u>
Total investment return	811,764	1,284,924		2,096,688
Contributions	-	240,318	271,825	512,143
Appropriation of endowment assets for expenditure	<u>(255,318)</u>	<u>(212,607)</u>	<u>-</u>	<u>(467,925)</u>
Net assets, end of year	<u>\$ 70,305</u>	<u>\$ 3,467,498</u>	<u>\$ 7,754,488</u>	<u>\$ 11,292,291</u>

Endowment net asset composition by type of fund as of June 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Donor-restricted endowment funds	\$ (815,496)	\$ 2,154,863	\$ 7,482,663	\$ 8,822,030
Funds functioning as endowment	<u>329,355</u>	<u>-</u>	<u>-</u>	<u>329,355</u>
Total funds	<u>\$ (486,141)</u>	<u>\$ 2,154,863</u>	<u>\$ 7,482,663</u>	<u>\$ 9,151,385</u>

(Continued)

SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010

**NOTE 9 - ENDOWMENT COMPOSITION** (Continued)

Changes in endowment net assets for year ended June 30, 2010.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Net assets, beginning of year	\$ (849,065)	\$ 2,016,909	\$ 6,809,144	\$ 7,976,988
Investment return				
Investment income, net	2,554	144,171	-	146,725
Net appreciation (realized and unrealized gains/losses)	<u>375,521</u>	<u>154,734</u>	<u>-</u>	<u>530,255</u>
Total investment return	378,075	298,905	-	676,980
Contributions	-	-	673,519	673,519
Appropriation of endowment assets for expenditure	<u>(15,151)</u>	<u>(160,951)</u>	<u>-</u>	<u>(176,102)</u>
Net assets, end of year	<u>\$ (486,141)</u>	<u>\$ 2,154,863</u>	<u>\$ 7,482,663</u>	<u>\$ 9,151,385</u>

Interpretation of UPMIFA: The Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

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

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

(Continued)

**NOTE 9 - ENDOWMENT COMPOSITION** (Continued)

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

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 \$58,357 and \$815,496 as of June 30, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations.

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

Board of Trustees  
Shawnee State University Development Foundation  
Portsmouth, Ohio

We have audited the financial statements of Shawnee State University Development Foundation (the "Foundation") as of and for the year ended June 30, 2011, and have issued our report thereon dated the same date as this report. 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.

Internal Control Over Financial Reporting

Management of Shawnee State University Development Foundation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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(Continued)

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Foundation in a separate letter dated October 14, 2011.

This report is intended solely for the information and use of the Board of Trustees, management, and the Ohio Auditor of State and is not intended to be and should not be used by anyone other than these specified parties.

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

Crowe Horwath LLP

Columbus, Ohio  
October 14, 2011





# Dave Yost • Auditor of State

**SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION**

**SCIOTO COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
DECEMBER 13, 2011**