

SHAWNEE STATE UNIVERSITY

SINGLE AUDIT

JULY 1, 2002 THROUGH JUNE 30, 2003

FISCAL YEAR AUDITED UNDER GAGAS: 2003

**BALESTRA, HARR & SCHERER, CPAs, INC.**

528 South West Street, P.O. Box 687

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**Auditor of State  
Betty Montgomery**

Board of Trustees  
Shawnee State University  
940 2nd Street  
Portsmouth, Ohio 45662

We have reviewed the Independent Auditor's Report of the Shawnee State University, Scioto County, prepared by Balestra, Harr & Scherer, CPA's, Inc., for the audit period July 1, 2002 to June 30, 2003. 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 is responsible for compliance with these laws and regulations.

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

December 22, 2003

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SHAWNEE STATE UNIVERSITY

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# BALESTRA, HARR & SCHERER, CPAs, INC.

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Ohio Society of Certified Public Accountants

## REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying financial statements of the business-type activities of Shawnee State University (the University), a component unit of the State of Ohio, as of and for the year ended June 30, 2003, which comprises the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic 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 audit provides 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 the business-type activities of the University, as of June 30, 2003, and the changes in its financial position and cash flows for the year 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 15, 2003 on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the University's basic financial statements. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of federal awards expenditures has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Balestra, Harr & Scherer, CPAs, Inc.

Balestra, Harr & Scherer, CPAs, Inc.  
October 15, 2003

Shawnee State University  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2003  
Unaudited

This section of Shawnee State University's annual financial report presents a discussion and analysis of the financial performance of the University during the fiscal year ended June 30, 2003. This discussion, prepared by University management, provides an overview of the University's financial activities and should be evaluated in conjunction with the accompanying financial statements and footnotes.

This annual report consists of the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. These statements have been prepared in accordance with Governmental Accounting Standards Board's (GASB) Statements No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities* as amended by GASB Statements No. 37, and No. 38, *Certain Financial Statement Note Disclosures*.

### **Financial Highlights**

Key financial highlights for 2003 are as follows:

- Total net assets increased \$1,351,700 which represents a 1.7% increase from 2002.
- Total assets increased \$415,028 which represents a .5% increase from 2002. Total net capital assets decreased \$778,178 which represents a 1.1% decrease from 2002.
- Total liabilities decreased by \$936,672. Current liabilities decreased \$574,148 and non-current liabilities decreased by \$362,524 due to decreases in accounts payable, workers compensation payable and bonds payable.
- Tuition Fees were increased 9.8% in September 2002. Increased fees, coupled with enrollment growth, accounts for the \$2,548,185 increase in tuition and fee income (net of scholarships).
- Non-operating revenue decreased \$2,371,069 as a result of a reduction of \$431,745 in state appropriations, a reduction of \$162,828 in investment income due to lower interest rates in 2003, and a reduction of \$1,776,496 in capital appropriations.

### **Using this Financial Report**

This annual report consists of two parts, the MD&A and the basic financial statements. The basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, and a statement of cash flows. Since the University consolidates its operations, the entity wide and the fund presentations information is the same.

#### Statement of Net Assets and Changes in Net Assets

These two statements answer the question, "How did we do financially during 2003?" These statements include all assets and liabilities, both financial and capital, and short-term and long-term. They present information about the University and its activities in a way that helps answer this question. The accrual basis of accounting is used for the recording of revenue and expenses. This basis of accounting records revenue when earned and expenses when incurred, regardless of when the cash is actually received or paid.



Shawnee State University  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2003  
Unaudited

Over time, increases or decreases in net assets are one indicator of the improvement or deterioration of the University's financial health. Non-financial factors such as student retention rate, enrollment growth, condition of facilities, etc. must also be considered.

**STATEMENT OF NET ASSETS**

The Statement of Net Assets, which reports all assets and liabilities of the University, reflects the financial position of the University at the end of the fiscal year. Total assets minus total liabilities equals net assets. The change in net assets during the fiscal year is a measurement of the change in the overall financial condition of the University. The university's assets, liabilities, and net assets as of June 30, 2003 and 2002 are presented below:

	2003	2002
Assets:		
Current Assets	\$21,702,639	\$19,997,713
Capital Assets, Net	67,089,983	67,868,161
Non-Current Assets	261,265	772,985
Total Assets	89,053,887	88,638,859
Liabilities:		
Current and other Liabilities	4,359,999	4,934,147
Long-Term Liabilities	3,885,177	4,247,701
Total Liabilities	8,245,176	9,181,848
Net Assets:		
Invested in Capital Assets, Net of Related Debt	64,179,983	64,668,161
Restricted	1,552,476	1,588,377
Unrestricted	15,076,252	13,200,473
Total Net Assets	\$80,808,711	\$79,457,011

The net assets of the University increased \$1,351,700 or 1.7%. Although a 1.7% increase in net assets may not seem significant, it is important to note that the University's intent is not to profit from this operation but to recover costs. Total liabilities decreased by \$936,672. Current liabilities decreased \$574,148 and non-current liabilities decreased by \$362,524 due to reductions in accounts payable, workers compensation payable and bonds payable. During fiscal year 2002, the State of Ohio required each state agency and state university to record a liability for future workers compensation payments. During fiscal year 2003, the State of Ohio determined that this liability should be reported at the state level rather than on the financials of state universities. This change contributed to the decrease in Shawnee State University's reported liabilities.

Shawnee State University  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2003  
Unaudited

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

The Statement of Revenues, Expenses and Changes in Net Assets presents the results of operations for the University. The University's revenues, expenses, and changes in net assets for fiscal years ending June 30, 2003 and June 30, 2002 are as follows:

	<b>2003</b>	<b>2002</b>
Operating Revenues:		
Tuition, Fees, & Other Student Charges	\$14,173,363	\$11,625,178
Grants & Contracts	\$12,844,615	\$11,308,225
Sales & Services	\$2,065,228	\$2,029,897
Other Income	\$322,647	\$208,367
Non-Operating Revenues		
Interest Income	\$225,534	\$388,362
State Appropriations	\$13,591,768	\$14,023,513
Capital Appropriations	\$257,240	\$2,033,736
 Total Revenues	 \$43,480,395	 \$41,617,278
 Operating Expenses:		
Instruction & Research	\$12,461,033	\$12,172,439
Public Service	\$3,223,625	\$3,051,816
Academic Support	\$2,277,054	\$2,239,148
Student Services	\$2,982,177	\$3,021,937
Institutional Support	\$4,745,395	\$5,086,160
Operation & Maintenance of Plant	\$2,179,358	\$2,293,822
Scholarships	\$8,291,411	\$7,024,712
Depreciation	\$1,776,953	\$1,844,968
Auxiliary Enterprises	\$3,834,998	\$3,532,558
Non-Operating Expenses:		
Interest on Capital Asset Related Debt	\$207,693	\$225,409
Loss on Disposal of Fixed Assets	\$138,402	\$73,860
Amortization of Debt Issuance Cost	\$10,596	\$10,596
 Total Expenses	 \$42,128,695	 \$40,577,425
 Increase in Net Assets	 \$1,351,700	 \$1,039,853

State appropriations represented 31.3% of the University's total revenue in 2003. This percentage illustrates that tuition and fee revenue alone is not sufficient to cover relevant operational expenses. It further illustrates that the financial condition of the University is dependent upon a predictable and relatively stable level of state appropriation funding.

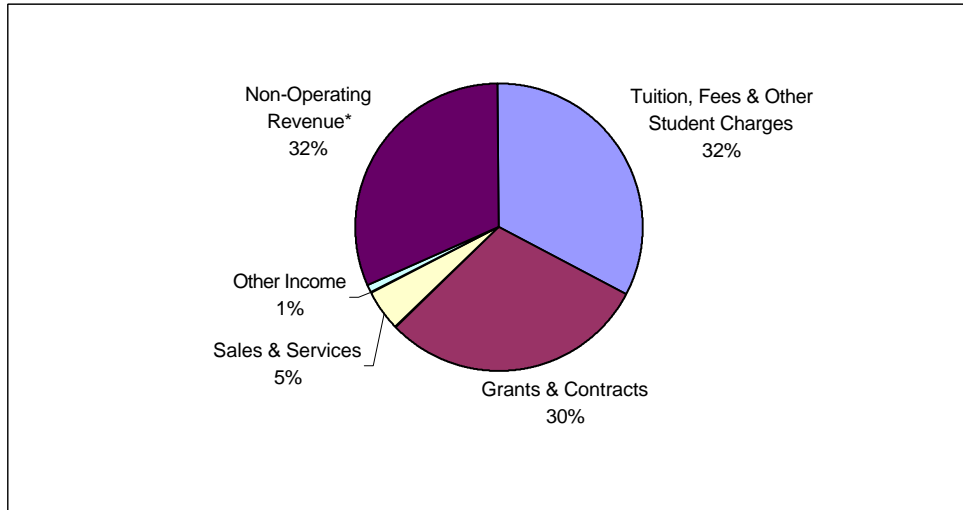
Shawnee State University is dedicated to its mission of providing higher education that fosters competence in oral and written communication, scientific and quantitative reason, and critical analysis/logical thinking. To enrich the lives of the community, the University provides opportunities for continuing personal and professional development, intellectual discovery, and appreciation for the creative and performing arts. The University charges students tuition and fees in accordance with approved University policy. Rates charged for tuition and fees increased 9.8% from the prior year. During 2003, the University generated revenues from tuition and fees in excess of \$14.1 million and had total expenses of approximately \$42

Shawnee State University  
 Management's Discussion and Analysis  
 For the Fiscal Year Ended June 30, 2003  
 Unaudited

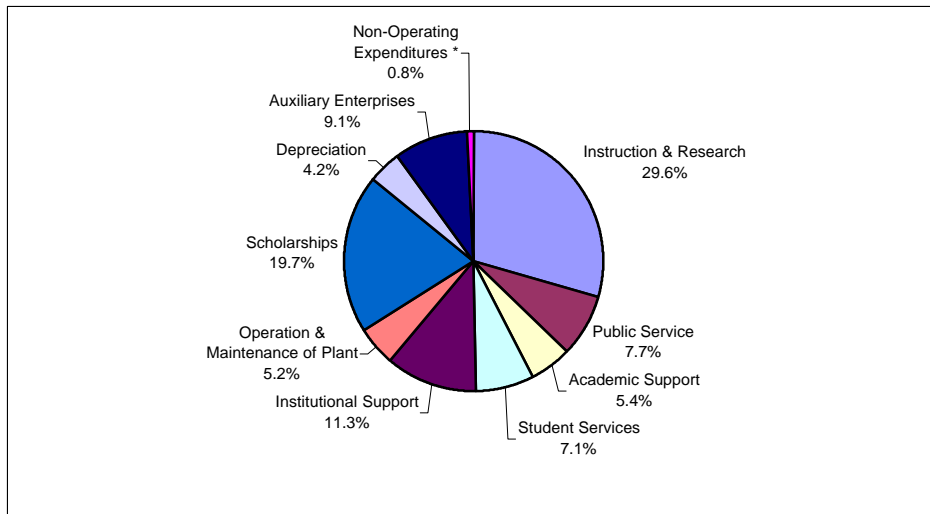
million. Investing practices earned interest income of \$225,534 for the University during 2003, which reflects a decrease of \$162,828 from 2002. The decrease is largely due to lower interest rates caused by an economic downturn in our economy. The interest expense of \$207,693 for 2003 is attributable to outstanding general revenue bonds.

The following graphs summarize Shawnee State University's revenue and expense activity for the fiscal year ending June 30, 2003.

Graph 1  
 Revenue Activity



Graph 2  
 Expense Activity



Shawnee State University  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2003  
Unaudited

**STATEMENT OF CASH FLOWS**

The Statement of Cash Flows provides information about the university's financial condition by reporting the cash sources (receipts) and the cash uses (payments) during the fiscal year ending June 30, 2003. A comparison of cash sources and uses during fiscal years 2003 and 2002 are presented below:

<b><u>Cash provided (used) by:</u></b>	<b>2003</b>	<b>2002</b>
Operating activities	(\$11,692,623)	(\$12,825,584)
Non-capital financing activities	\$13,591,768	\$14,023,513
Capital and related financing activities	(\$1,544,893)	(\$1,757,689)
Investing activities	\$4,513,378	\$401,658
Net increase (decrease) in cash & cash equivalents	\$4,867,630	(\$158,102)
Cash and cash equivalents - beginning of the year	\$13,880,451	\$14,038,553
Cash and cash equivalents - end of the year	\$18,748,081	\$13,880,451

Cash and cash equivalents increased by \$4,867,630 primarily as a result of the conversion of investment securities to money market cash equivalents.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of fiscal year 2003, the University had \$67,089,983 in net capital assets. This reflects a \$778,178 overall decrease in net capital assets from 2002.

Capital Assets, Net of Depreciation  
At June 30,

	2003	2002
Land	\$7,351,987	\$7,348,112
Land Improvements	6,914,202	6,894,202
Buildings and Improvements	46,813,192	46,522,051
Equipment	1,862,581	1,560,085
Library Books	4,049,789	4,047,490
Construction in Progress	98,232	1,496,221
Totals	\$67,089,983	\$67,868,161

Shawnee State University  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2003  
Unaudited

**Debt Administration**

At June 30, 2003, the University had two outstanding General Revenue Bonds Payable totaling \$2,910,000; \$310,000 of which is due within one year. This reflects a \$290,000 overall decrease from 2002 in the General Revenue Bonds Payable liability.

Outstanding Debt at Year End

	2003	2002
General Revenue Bonds Payable:		
6.0% to 7.1% 1989 – Series A	\$1,535,000	\$1,735,000
4.6% to 6.3% 1996 – Series B	1,375,000	1,465,000
Total	\$2,910,000	\$3,200,000

These bonds were both issued to make capital improvements; the Series A Bond matures in 2009, and the Series B Bond matures in 2014.

**CURRENT FINANCIAL ISSUES AND CONCERNS**

Management believes that the University has a strong financial foundation by which to continue accomplishing its mission and strategic goals. The University's senate bill 6 ratios, which measure the overall financial health of the institution and its ability to meet current and future obligations, are strong.

Shawnee State University continues, however, to face financial challenges. The University's main sources of state support continue to decline. In addition, State imposed tuition level constraints (in the form of limiting percentage increases) further complicate the University's revenue options. Shawnee State is particularly disadvantaged by the "percentage increase" regulations because the University's tuition is relatively low compared to other Ohio public universities. For example, a six percent increase in tuition produces proportionately less revenue for Shawnee State University than it does for most of the other Ohio public universities. The impact of inflation on normal operating costs intensifies the need to both increase revenue, with emphasis on additional funding sources, and implement further appropriate cost control efficiencies.

**SHAWNEE STATE UNIVERSITY**

*Statement of Net Assets*

*June 30, 2003*

	Total
<b>Assets</b>	
<i>Current Assets:</i>	
Cash and Cash Equivalents	\$17,926,243
Deposits Held By Trustees	813,146
Receivables:	
Interest	2,293
Accounts (Net of allowances for doubtful accounts of \$540,0	2,605,261
Notes (Net of allowances for doubtful accounts of \$815)	57,533
Amounts Due From Primary Government	82,398
Inventory	48,758
Deferred Charges	10,596
Prepaid Items	<u>156,411</u>
<i>Total Current Assets</i>	21,702,639
<i>Noncurrent Assets:</i>	
Restricted Assets:	
Cash and Cash Equivalents	8,692
Investments	180,191
Deferred Charges	72,382
Capital Assets, Net	<u>67,089,983</u>
<i>Total Noncurrent Assets</i>	<u>67,351,248</u>
 <i>Total Assets</i>	 <u><u>\$89,053,887</u></u>
<b>Liabilities</b>	
<i>Current Liabilities:</i>	
Accounts Payable	543,972
Contracts Payable	32,615
Accrued Wages and Benefits	1,836,501
Workers Compensation Payable	184,620
Compensated Absences Payable	140,071
Bonds Payable	310,000
Accrued Interest Payable	15,855
Deferred Revenue	422,410
Deposits Held and Due to Others	77,196
Claims Payable	<u>796,759</u>
<i>Total Current Liabilities</i>	4,359,999
<i>Long-Term Liabilities (Net of Current Portion):</i>	
Compensated Absences Payable	1,285,177
Bonds	<u>2,600,000</u>
<i>Total Long-Term Liabilities</i>	<u>3,885,177</u>
<i>Total Liabilities</i>	<u><u>\$8,245,176</u></u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	64,179,983
Restricted	
Expendable:	
Loans	112,736
Expendable - Other	843,336
Debt Service	596,404
Unrestricted	<u>15,076,252</u>
<i>Total Net Assets</i>	<u><u>\$80,808,711</u></u>

See accompanying notes to the basic financial statements

**SHAWNEE STATE UNIVERSITY**

*Statement of Revenues,*

*Expenses and Changes in Net Assets*

*For the Fiscal Year Ended June 30, 2003*

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**Operating Revenues**

Tuition, Fees & Other Student Charges (Net of scholarship allowance of \$1,169,751)	\$14,173,363
Federal Grants & Contracts	8,427,233
State Grants & Contracts	2,786,819
Local Grants & Contracts	982,491
Private Gifts, Grants & Contracts	648,072
Sales & Services (Net of scholarship allowance of \$66,161)	2,065,228
Miscellaneous	322,647

*Total Operating Revenues* 29,405,853

**Operating Expenses**

Educational and General	
Instruction & Departmental Research	12,461,033
Public Service	3,223,625
Academic Support	2,277,054
Student Services	2,982,177
Institutional Support	4,745,395
Operation & Maintenance of Plant	2,179,358
Scholarships & Fellowships	8,291,411
Depreciation	1,776,953
Auxiliary Enterprises	3,834,998

*Total Operating Expenses* 41,772,004

*Operating Income (Loss)* (12,366,151)

**Non-Operating Revenues (Expenses)**

State Appropriations	13,591,768
Interest Income	225,534
Interest on Capital Asset - Related Debt	(207,693)
Loss on Disposal of Fixed Assets	(138,402)
Amortization of Debt Issuance Cost	(10,596)

*Total Non-Operating Revenues (Expenses)* 13,460,611

*Income (Loss) before other revenues, expenses, gains, or losses* 1,094,460

Capital Appropriations 257,240

*Increase in Net Assets* 1,351,700

*Net Assets Beginning of Year - Restated (See Note 3)* 79,457,011

*Net Assets End of Year* \$80,808,711

See accompanying notes to the basic financial statements

**SHAWNEE STATE UNIVERSITY**

*Statement of Cash Flows*

For the Year Ended June 30, 2003

Increase (Decrease) in Cash and Cash Equivalents:	
<i>Cash Flows from Operating Activities:</i>	
Cash Received from Tuition, Fees, and Other Student Charges	\$14,123,792
Cash Received from Gifts, Grants and Contracts	12,386,406
Cash Received from Sales and Services	2,070,052
Cash Received from Miscellaneous Revenue	322,647
Cash Payments to Suppliers for Goods and Services	(9,245,254)
Cash Payments to Employees for Services	(16,134,105)
Cash Payments for Employee Benefits	(6,924,750)
Cash Payments for Scholarships and Fellowships	<u>(8,291,411)</u>
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>(11,692,623)</u>
<i>Cash Flows from Noncapital Financing Activities:</i>	
State Appropriations	<u>13,591,768</u>
<i>Net Cash Provided by (Used for) Noncapital Financing Activities</i>	<u>13,591,768</u>
<i>Cash Flows from Capital and Related Financing Activities:</i>	
Capital Appropriations	378,105
Proceeds from Sale of Capital Assets	180,000
Payments for Capital Acquisitions	(1,603,720)
Principal Payments	(290,000)
Interest Payments	<u>(209,278)</u>
<i>Net Cash Provided by (Used for) Capital and Related Financing Activities</i>	<u>(1,544,893)</u>
<i>Cash Flows from Investing Activities:</i>	
Interest on Investments	256,254
Proceeds From Sale and Maturities of Investments	<u>4,257,124</u>
<i>Net Cash Provided by Investing Activities</i>	<u>4,513,378</u>
Net Increase (Decrease) in Cash and Cash Equivalents	4,867,630
Cash and Cash Equivalents at Beginning of Year	<u>13,880,451</u>
Cash and Cash Equivalents at End of Year	<u><u>\$18,748,081</u></u>
<i>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:</i>	
Operating Income (Loss)	(\$12,366,151)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:	
Depreciation	1,776,953
Changes in Assets and Liabilities:	
(Increase)/Decrease in Accounts Receivable	(671,828)
(Increase)/Decrease in Notes Receivable	7,948
(Increase)/Decrease in Prepaid Items	(24,004)
(Increase)/Decrease in Materials and Supplies Inventory	7,834
Increase/(Decrease) in Accounts Payable	(906,733)
Increase/(Decrease) in Accrued Wages and Benefits	271,532
Increase/(Decrease) in Compensated Absences Payable	120,635
Increase/(Decrease) in Workers Compensation Payable	(69,733)
Increase/(Decrease) in Deferred Revenue	<u>160,924</u>
Total Adjustments	<u>673,528</u>
Net Cash Provided by (Used for) Operating Activities	<u><u>(\$11,692,623)</u></u>

See accompanying notes to the basic financial statements



**SHAWNEE STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2003**

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**NOTE 1- REPORTING ENTITY**

Shawnee State University is a state institution of higher education created in 1986 by the Ohio General Assembly under House Bill 739. The University is one of several state-supported universities in Ohio. It is declared by statute to be a body politic and corporate and an instrumentality of the State. The University is governed by a nine member Board of Trustees which is granted authority under Ohio law to do all things necessary for the proper maintenance and continual successful operation of the University. The Trustees are appointed for staggered nine-year terms by the Governor with the advice and consent of the State Senate. In addition, two non-voting student members are appointed to the Board of Trustees for staggered two year terms.

The reporting entity is comprised of the stand-alone government, component units and other organizations that are included to ensure that the financial statements of Shawnee State University are not misleading. The stand-alone government consists of all departments, boards and agencies that are not legally separate from Shawnee State University.

Component units are legally separate organizations for which Shawnee State University is financially accountable. Shawnee State University is financially accountable for an organization if it appoints a voting majority of the organization's governing board and (1) is able to significantly influence the programs or services performed or provided by the organization; or (2) is legally entitled to or can otherwise access the organization's resources; is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; or is obligated for the debt of the organization. Based upon the application of these criteria, Shawnee State University has no component units.

In accordance with Governmental Accounting Standards Board Statement No. 14, *The Reporting Entity*, (GASB No. 14) the University's financial statements are included, as a discrete entity, on the State of Ohio's Consolidated Annual Financial Report.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Shawnee State University (the University) have been prepared on the accrual basis and are in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Shawnee State University also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Shawnee State University accounting policies are described below.

**SHAWNEE STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2003**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Presentation**

The Shawnee State University basic financial statements consist of a statement of net assets, a statement of revenue, expenses and changes in net assets, and a statement of cash flows.

Shawnee State University uses an enterprise fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services.

**Measurement Focus**

The enterprise fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of Shawnee State University are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how Shawnee State University finances and meets the cash flow needs of its enterprise activity.

**Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Shawnee State University financial statements are prepared using the accrual basis of accounting.

Revenue is recorded on the accrual basis when the exchange takes place. Expenses are recognized at the time they are incurred.

**Deferred Revenue**

Deferred revenue is principally comprised of receipts relating to tuition and student fees in advance of the services to be provided. The University will recognize revenue to the extent these services are provided over the coming fiscal year.

**Income Taxes**

The Internal Revenue Service has determined the University to be exempt from federal income taxes under Section 115 of the Internal Revenue Code, except for unrelated business income.

**SHAWNEE STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2003**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Investments**

During fiscal year 2003, investments were limited to STAR Ohio, First American Treasury Fund, and U.S. Treasury Notes.

Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair value which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost.

The University has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2003. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price at which the investment could be sold on June 30, 2003.

For purposes of the statement of cash flows and presentation on the statement of net assets, all investments with original maturities of three months or less at the time they are purchased by the University are presented on the financial statements as cash equivalents.

**Inventories**

The University's inventories consist principally of supplies maintained in Central Stores and are valued at a moving average cost.

**Capital Assets**

Capital assets utilized by Shawnee State University are reported on the statement of net assets. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. Shawnee State University maintains a capitalization threshold of one thousand, five hundred dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The University does not possess any infrastructure.

All reported capital assets except for land, land improvements, library books and construction in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

**SHAWNEE STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2003**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Capital Assets (Continued)**

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	50 years
Machinery and Equipment	5-20 years
Licensed Vehicles	8 years

Shawnee State University's policy is to capitalize net interest on the enterprise fund construction projects until substantial completion of the project. The amount of the capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project and the interest earned from temporary investments of the debt proceeds over the same period. Capitalized interest is amortized on a straight-line basis over the estimated useful life of the asset. For 2003, no material interest costs were incurred on construction projects for Shawnee State University.

**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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue during the reporting period. Actual results could differ from those estimates.

**Compensated Absences**

Shawnee State University follows the provisions of Governmental Accounting Standards Board Statement No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employee's right to receive compensation is attributable to service already rendered and it is probable that the employer will compensate the employee for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability will include employees currently eligible to receive termination benefits and those Shawnee State University had identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and the employee's wage rate at year end, taking into consideration any limits specified in Shawnee State University's termination policy.

**Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by Shawnee State University or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Shawnee State University applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Restricted net assets include amounts for debt service, loans, and other restricted expendable grant funds.

**SHAWNEE STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2003**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from primary activities. For Shawnee State University, these revenues are tuition, fees, federal, state, local and private grants, sales and services and miscellaneous reimbursements. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of Shawnee State University.

**Contributions of Capital**

Contributions of capital arise from outside contributions of fixed assets or outside contributions of resources restricted to capital acquisition and construction. Shawnee State University received \$9,873 of capital contributions during 2003.

**Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expense is reported in the year the services are consumed.

**Deferred Charges**

Debt issuance cost and fees on long term debt are recorded as deferred charges in the year paid and amortized over the life of the debt issuance instead of being expensed.

**Restricted Assets**

Certain resources set aside for the repayment of debt, student loans and grants, are classified as restricted assets on the statement of net assets because they are maintained in separate bank accounts and their use is limited by covenants, statutory requirements, or grant agreements.

**Budgetary Process**

Although not required under the Ohio Revised Code, estimated budgets are adopted by the University Board of Trustees in June for the following fiscal year. As part of budgetary control, purchase orders, contracts and other commitments are recorded as the equivalent of an expense on the budgetary basis in order to reserve that portion of the applicable encumbrance.

**SHAWNEE STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2003**

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**NOTE 3 – PRIOR PERIOD RESTATEMENT**

Net assets have been restated at June 30, 2002 to properly reflect the value of the capital assets.

Net Assets, June 30, 2002:	\$79,376,533
Restatement:	<u>80,478</u>
Net Assets, July 1, 2002:	<u>\$79,457,011</u>

In addition, equipment and related accumulated depreciation decreased in the amount of \$10,377,000 due to library books being included, in error, in the equipment category. This caused no net affect on net capital assets.

**NOTE 4 - CASH AND INVESTMENTS**

The University invests in those instruments identified by state statute. Specifically, authorized investment instruments consist of obligations of the U. S. Treasury, agencies and instrumentalities of the U. S. Government, bonds and other obligations of the State of Ohio and its political subdivisions, collateralized certificates of deposit, repurchase agreements in the securities enumerated above, and the State Treasury Asset Reserve of Ohio (STAR Ohio), which is managed by the State of Ohio.

All investments are stated at fair value as required by GASB Statement No. 31. Investments acquired by gift are stated at fair value at date of gift if a fair value is available, and otherwise at an appraised or nominal value. All such gifts are separately reported in the financial statements of the Shawnee State University Development Foundation (See Note 15).

Cash and Investments (including Deposits held by Trustee) of the University as of June 30, 2003 are comprised of the following:

	<u>Fair Value</u>
Current and Loan Funds:	
Star Ohio	\$ 3,716,300
First American Treasury Fund	<u>987,681</u>
Total Investments	4,703,981
Other Cash and Cash Equivalents	<u>13,696,622</u>
Sub-total:	<u>\$18,400,603</u>
Plant funds:	
U.S. Treasury Notes	\$ 180,191
First American Treasury Fund	<u>347,478</u>
Sub-total:	<u>\$ 527,669</u>
Total Cash and Investments (all funds):	<u>\$ 18,928,272</u>

**SHAWNEE STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2003**

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**NOTE 4 - CASH AND INVESTMENTS (CONTINUED)**

*Deposits* :At June 30, 2003, the carrying amount of the University’s deposits, (which consists of cash, excluding cash on hand of \$4,432, deposits held by trustee, and investments) was \$13,692,190 and the bank balance was \$14,364,549. The difference in the carrying amount and bank balance results from outstanding checks and deposits in transit. Of the bank balance, \$100,000 is covered by federal deposit insurance (Category 1). The remaining balances at June 30, 2003 of \$14,264,549 is uninsured but collateralized by U.S. Treasuries held by the Federal Reserve bank in “book entry” form in the name of the respective bank, but who also internally designate the securities as assigned to the University (Category 2).

*Investments*: The University’s investments are required to be categorized to give an indication of the level of risk assumed by the University at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the University or its agent in the University’s name. Category 2 includes uninsured and unregistered investments which are held by the counterparty’s trust department or agent in the University’s name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the University’s name. The University’s investments in STAR Ohio, an investment pool operated by the Ohio State Treasurer, are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Category 1	Category 2	Carrying Value	Fair Value
STAR Ohio			\$3,716,300	\$3,716,300
US Treasury Notes	\$180,191		180,191	180,191
First American Treasury Fund		1,335,159	1,335,159	1,335,159
<b>Total</b>	<b>\$180,191</b>	<b>\$1,335,159</b>	<b>\$5,231,650</b>	<b>\$5,231,650</b>

The classification of cash and cash equivalents, and investments on the Statement of Net Assets is based on criteria set forth in GASB Statement No. 9 *Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting*.

**SHAWNEE STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2003**

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**NOTE 4 - CASH AND INVESTMENTS (CONTINUED)**

A reconciliation between the classifications of cash and cash equivalents and investments on the Statement of Net Assets and the classification of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$18,748,081	\$180,191
Cash on Hand	(4,432)	
Investments:		
STAR Ohio	(3,716,300)	3,716,300
First American Treasury Fund	(1,335,159)	1,335,159
GASB Statement No. 3	\$13,692,190	\$5,231,650

**NOTE 5 - STATE SUPPORT**

The University is a state-assisted institution of higher education which receives a student-based subsidy from the State of Ohio. This subsidy is determined annually based upon a formula devised by the Ohio Board of Regents, adjusted to State resources available.

In addition to the student subsidies, the State of Ohio provides the funding for the construction of major plant facilities on the University's campus.

The funding for the construction of facilities is obtained from the issuance of revenue bonds by the Ohio Public Facilities Commission, which in turn causes the construction and subsequent lease of the facility by the Ohio Board of Regents. Upon completion of a facility, the Ohio Board of Regents turns over control to the University. The University capitalizes the costs of these facilities as construction is completed and funded by the Ohio Public Facilities Commission.

Neither the obligation for the revenue bonds issued by the Ohio Public Facilities Commission or the annual debt service charges for principal and interest on the bonds are reflected in the University's financial statements. These are currently being funded through appropriations to the Ohio Board of Regents by the Ohio General Assembly.

The University facilities are not pledged as collateral for the revenue bonds. Instead, the bonds are supported by a pledge of monies in the Higher Education Bond Service Fund established in the custody of the Treasurer of the State of Ohio. If sufficient monies are not available for this fund, a pledge exists to assess a special student fee uniformly applicable to students in state-assisted institutions of higher education throughout the State.



**SHAWNEE STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2003**

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**NOTE 5 - STATE SUPPORT (CONTINUED)**

As a result of the above described financial assistance provided by the State of Ohio to the University, outstanding debt issued by the Ohio Public Facilities Commission is not included on the University's statement of net assets. In addition, appropriations by the General Assembly to the Ohio Board of Regents for payment of debt service charges are not reflected as appropriation revenue received by the University, and the related debt service payments are not recorded in the University's accounts.

The University received appropriations from the State to fund capital improvements. The costs, both direct and indirect, are subject to examination and approval by the State of Ohio.

The University's expenses funded by state appropriations for the budget fiscal year ended June 30, 2003 consist of the following:

	<u>2003</u>
Total expenses	\$10,152,929
Contractual commitments	500,051
Estimated cost of State-approved projects not yet committed	<u>5,092,771</u>
Total	<u>\$15,745,751</u>

**NOTE 6 - RISK MANAGEMENT**

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2003, the University maintained comprehensive insurance coverage with private carrier for real property, building contents, and motor vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are 100% insured.

Coverages provided by this company are as follows:

Real and Personal Property (\$10,000 deductible)	\$96,598,000
Automobile Liability (\$500 deductible)	1,000,000*
Uninsured Motorists (\$500 deductible)	1,000,000*
Employee Benefits Liability (Aggregate)	1,000,000*
General Liability	
Per occurrence	1,000,000*

\*\$20,000,000 excess over general liability, auto liability, and employers liability.

**SHAWNEE STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2003**

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**NOTE 6 - RISK MANAGEMENT (CONTINUED)**

Effective October 1995, the University elected to become partially self-insured for certain employee health benefit programs. Funding for these programs is based on actuarial projections provided by the plan administrators. Aggregate stop loss insurance is maintained for benefit payments that exceed the maximum limits outlined in the policy. The claims liability of \$796,759 reported in the enterprise fund at June 30, 2003 is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. No incremental claim adjustment expenses are included in the estimate.

Changes in claims activity for the past three fiscal years are as follows:

	Balance at Beginning of Year	Current Year Claims	Claims Payments	Balance at End of Year
2001	\$542,013	\$2,974,534	\$2,719,788	\$796,759
2002	\$796,759	\$2,785,643	\$2,785,643	\$796,759
2003	\$796,759	\$2,727,794	\$2,727,794	\$796,759

Workers' compensation benefits are provided through the State Bureau of Workers' Compensation. The University pays all administrative and appointed officials' bonds by statute.

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant change in coverage from last year.

**NOTE 7 - GRANTS AND CONTRACTS**

Revenue from grants and contracts is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the University must provide local resources to be used for a specified purpose, and expense requirements, in which the resources are provided to the University on a reimbursement basis.

**NOTE 8 - RETIREMENT PLANS**

Employee retirement benefits are available for substantially all employees under contributory retirement plans administered by the Ohio Public Employees Retirement Systems (OPERS) and the State Teachers Retirement System of Ohio (STRS Ohio). STRS Ohio and OPERS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits for plan members.

**SHAWNEE STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2003**

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**NOTE 8 - RETIREMENT PLANS (CONTINUED)**

The Ohio General Assembly legislation gives public employers in Ohio the option of establishing an early retirement incentive plan for members of STRS and PERS. As of June 30, 2003, the University has not authorized such a plan.

*Public Employees Retirement System:* Employees (except for teaching faculty) participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer defined benefit pension plan. OPERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The Ohio Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-PERS(7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rates are 8.5% for employees other than law enforcement. The 2003 employer contribution rate for local government employers was 13.31%. The University's contributions to OPERS for the years ending June 30, 2001, 2002, and 2003, were \$737,600, \$967,404, and \$991,443 respectively, which are equal to the required contributions for each year.

*State Teachers Retirement System:* The University participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS Ohio provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. STRS Ohio issues a publicly available financial report that includes financial statements and required supplementary information for STRS Ohio. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, or by calling (614) 227-4090.

Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by STRS Ohio, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Plan members are required to contribute 9.3% of their annual covered salary and the University is required to contribute 14%; 8.24% was the portion used to fund pension obligations. The University's contribution for pension obligations to STRS Ohio for the fiscal years ending June 30, 2001, 2002, and 2003 was \$1,099,914, \$1,072,622, and \$1,105,005 respectively. 100% has been contributed for all three fiscal years.

*Alternative Retirement Plan (ARP):* All newly hired full time administrative employees and faculty are eligible to choose an Alternative Retirement Plan (ARP) rather than the State Teachers Retirement System (STRS Ohio) or Public Employees Retirement System (OPERS). Once an employee decides to enroll in an ARP or the state retirement plan, the decision is irrevocable during their employment with the University. Employees have 120 days from the date of hire to decide into which retirement system they wish to enroll. If no decision is made, they will be assigned the appropriate state retirement plan based upon the position for which they were hired. Vesting of all contributions made by the University occurs after one (1) year of service.

SHAWNEE STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

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**NOTE 8 - RETIREMENT PLANS (CONTINUED)**

The eight companies approved to offer an ARP for the University employees are Aetna, Equitable, Great American Life, Lincoln National Life, Nationwide Life, TIAA-Cref, Travelers Insurance Company, and VALIC. The obligation for the payment of benefits has been transferred from the University to the elected insurance company.

A member in an STRS OHIO eligible position contributes 9.3% of their earned income to their retirement account. The University contributes 14%. For the period July 1, 2002 through June 30, 2003, 10.5% of this amount was paid into the member's retirement account. The remaining 3.5% was paid to STRS OHIO, as required by state legislation, to cover un-funded liability. The member receives no compensation or benefits from STRS OHIO for the 3.5% contributed.

A member in a PERS eligible position, contributes 8.5% of their earned income and the University contributes 13.31%. The entire 13.31% is paid to the member's retirement account.

The employee and employer contribution are governed by state legislation and can be changed in accordance with legislative mandates.

As of June 30, 2003, there are approximately 38 active participants in an ARP. The University's contribution for employees enrolled in ARP accounts for fiscal year 2003 was \$220,884.

**NOTE 9 - POSTEMPLOYMENT BENEFITS**

Public Employees Retirement System: The Ohio Public Employees Retirement System (OPERS) provides post-retirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB) as described in GASB Statement 12. A portion of each employer's contribution to PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory for employer contributions. The 2002 employer contribution rate for state employers was 13.31% of covered payroll; 5.0% was the portion that was used to fund health care for the year.

The University's fiscal year 2003 employer contributions to PERS total \$991,443. Of this amount, \$372,443 was used to fund health care for the year for employees. This represents 5.0% of the covered current year payroll.

The assumptions and calculations following were based on the System's latest Actuarial Review performed as of December 31, 2001. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2001 was 8.0%. An annual increase of 4.0% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase 4.0% annually.

**SHAWNEE STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2003**

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**NOTE 9 - POSTEMPLOYMENT BENEFITS (CONTINUED)**

OPEBs are advanced funded on an actuarially determined basis. The number of active contributing participants was 402,041. \$11.6 billion represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2001. The actuarially accrued liability and unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion, respectively.

*State Teachers Retirement System:* The State Teachers Retirement Board of Ohio (STRS Ohio) has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of health care cost in the form of a monthly premium. The Revised Code grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses, and dependents. By Ohio law, the cost of coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2002, the board allocated employer contributions equal to 4.5% of covered payroll to the Health Care Stabilization Fund. Effective July 1, 2002, 1% of covered payroll will be allocated to the fund. The balance in the Health Care Stabilization Fund was \$3.011 billion on June 30, 2002. For the University, this amount equaled \$339,108 during fiscal year 2003.

For the fiscal year ended June 30, 2001, net health care costs paid by STRS were \$354,697,000. There were 105,300 eligible benefit recipients.

**NOTE 10 - COMPENSATED ABSENCES**

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees and administrators earn ten to twenty-five days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Faculty does not earn vacation time.

Faculty, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated with no maximum by all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 40 days for qualifying employees.

**SHAWNEE STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2003**

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**NOTE 11- LONG-TERM OBLIGATIONS**

The changes in the University's long-term obligations during fiscal year 2003 were as follows:

	Principal Outstanding <u>06/30/02</u>	<u>Additions</u>	<u>Deductions</u>	Principal Outstanding <u>06/30/03</u>	Amounts Due in One <u>Year</u>
1989 General Receipts Bonds, Series A	\$1,735,000	\$ 0	\$ 200,000	\$ 1,535,000	\$ 215,000
1996 General Receipts Bonds, Series B	1,465,000	0	90,000	1,375,000	95,000
Compensated Absences	<u>1,304,613</u>	<u>165,235</u>	<u>44,600</u>	<u>1,425,248</u>	<u>140,071</u>
Total Long Term Liabilities	<u>\$4,504,613</u>	<u>\$165,235</u>	<u>\$ 334,600</u>	<u>\$ 4,335,248</u>	<u>\$ 450,071</u>

On November 1, 1989, the University issued \$3,250,000 of \$5,000 General Receipts Bonds, Series A, dated November 1, 1989, maturing at various dates through 2009 at coupon rates ranging from 6.0% to 7.1%. The bonds were issued for the purpose of paying a portion of the costs of acquiring, constructing and equipping the University's new Student Center.

On August 1, 1996, the University issued \$1,960,000 of \$5,000 General Receipts Bonds, Series B, dated August 1, 1996, maturing at various dates, through June 1, 2014 at coupon rates ranging from 4.6% to 6.3%. The bonds were issued for the purpose of paying a portion of the costs of purchasing, repairing and remodeling the Celeron Square Apartments, funding a reserve, capitalized interest and paying issuing costs of the Series B Bonds. The apartments consist of four units with four townhouses per unit and house approximately 128 students.

Total interest expense incurred on indebtedness for the year ended June 30, 2003 is \$207,693.

**SHAWNEE STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2003**

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**NOTE 11- LONG-TERM OBLIGATIONS (CONTINUED)**

Principal and Interest amounts due within each of the next five years and thereafter on Series A bond obligations outstanding at June 30, 2003 are as follows:

<u>Year Ended June 30,</u>	<u>Series A</u>	<u>Interest</u>	<u>Total</u>
2004	215,000	108,985	323,985
2005	230,000	93,720	323,720
2006	245,000	77,390	322,390
2007	265,000	59,995	324,995
2008	280,000	41,180	321,180
Thereafter	<u>300,000</u>	<u>21,300</u>	<u>321,300</u>
Total	<u>\$1,535,000</u>	<u>\$402,570</u>	<u>\$1,937,570</u>

Principal and Interest amounts due within each of the next five years and thereafter on Series B bond obligations outstanding at June 30, 2003 are as follows:

<u>Year Ended June 30,</u>	<u>Series B</u>	<u>Interest</u>	<u>Total</u>
2004	95,000	81,278	176,278
2005	100,000	76,100	176,100
2006	100,000	70,500	170,500
2007	110,000	64,800	174,800
2008	115,000	58,200	173,200
Thereafter	<u>855,000</u>	<u>188,700</u>	<u>1,043,700</u>
Total	<u>\$1,375,000</u>	<u>\$539,578</u>	<u>\$1,914,578</u>

**NOTE 12- LEASES**

The University's operating leases consist of real property and movable equipment. Total expenditures during 2003 under operating leases amounted to approximately \$24,437.

Future minimum payments on the non-cancelable operating leases subsequent to June 30, 2003 are as follows:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2004	11,623
2005	10,166
2006	3,316
2007	<u>1,000</u>
Total future minimum payments	<u>\$26,105</u>

**SHAWNEE STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2003**

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**NOTE 13- CAPITAL ASSETS**

Capital Asset activity for the fiscal year ended June 30, 2003, was as follows:

	RESTATED BALANCE <u>06/30/02</u>	ADDITIONS	DEDUCTIONS	BALANCE <u>06/30/03</u>
Capital Assets, Not Being Depreciated				
Land	\$ 7,348,112	\$ 33,875	(\$30,000)	\$ 7,351,987
Land Improvements	6,894,202	20,000	0	6,914,202
Library Books	4,047,490	65,890	(63,591)	4,049,789
Construction In Progress	<u>1,496,221</u>	<u>98,232</u>	<u>(1,496,221)</u>	<u>98,232</u>
Total Capital Assets, Not Being Depreciated	<u>\$19,786,025</u>	<u>\$ 217,997</u>	<u>\$ (1,589,812)</u>	<u>\$18,414,210</u>
Capital Assets Being Depreciated				
Buildings and Improvements	\$62,713,715	\$1,818,269	\$ (254,600)	\$64,277,384
Equipment	<u>4,434,645</u>	<u>798,743</u>	<u>(84,265)</u>	<u>5,149,123</u>
Total Capital Assets, Being Depreciated	<u>\$67,148,360</u>	<u>\$2,617,012</u>	<u>\$ (338,865)</u>	<u>\$69,426,507</u>
Less Accumulated Depreciation				
Buildings and Improvements	(16,191,664)	(1,288,094)	15,566	(17,464,192)
Equipment	<u>( 2,874,560)</u>	<u>( 488,859)</u>	<u>76,877</u>	<u>( 3,286,542)</u>
Total Accumulated Depreciation	<u>(19,066,224)</u>	<u>(1,776,953)</u>	<u>92,443</u>	<u>(20,750,734)</u>
Total Capital Assets, Being Depreciated, Net	<u>48,082,136</u>	<u>840,059</u>	<u>(246,422)</u>	<u>48,675,773</u>
Capital Assets, Net	<u>\$67,868,161</u>	<u>\$ 1,058,056</u>	<u>\$ (1,836,234)</u>	<u>\$67,089,983</u>

**NOTE 14- RELATED ORGANIZATIONS**

The University is the exclusive beneficiary of the Shawnee State University Development Foundation, a separate not-for-profit entity organized for the purpose of promoting educational activities at the University. The Foundation is a legally separate entity from the University and maintains a self-appointing board of trustees. The Foundation reimburses the University for substantially all operating expenses paid by the University on behalf of the Foundation. Accordingly, management has determined that the Foundation is not a component unit of the University as defined by Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*. Assets totaling \$9,916,301 at June 30, 2003 most of which have been restricted by donors for specific purposes are held by the Foundation and are not recorded in the accompanying financial statements. Amounts received by the University from the Foundation are included in private support in the accompanying financial statements.



**SHAWNEE STATE UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2003**

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**NOTE 15- CONTINGENCIES**

Grants

The University received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the unrestricted or restricted educational and general funds or other applicable funds. However, in the opinion of management, any such disallowed claims would not have a material adverse effect on the overall financial position of the University at June 30, 2003.

Litigation

The University is a party to a number of legal actions. Management is of the opinion that the liability, if any, for these legal actions will not have a material effect on the University's financial statement.

**NOTE 16- JOINTLY GOVERNED ORGANIZATION**

*Pilasco-Ross Special Education Regional Resource Center* - The Pilasco-Ross Special Education Regional Resource Center (Pilasco-Ross) is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding, and improving special education programs and services for children with disabilities and their parents.

Pilasco-Ross is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of chartered nonpublic schools, representatives of county boards of MR/DD, Shawnee State University, and the Southeast Regional Professional Development Center whose terms rotate every year. The degree of control exercised by any participating entity is limited to its representation on the Board. Shawnee State University's Chairman of the Department of Teacher Education is on the Pilasco-Ross Board. Financial information can be obtained by contacting the fiscal agent, Jim Tordiff, at Dawson-Bryant Local School District, 222 Lane Street, Coal Grove, Ohio 45638.

Shawnee State University  
Scioto County  
Schedule of Federal Awards Expenditures  
For the Year Ended June 30, 2003

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
<b>United States Department of Education</b>			
<i>Direct from the Federal Agency</i>			
<i>Student Financial Aid Cluster:</i>			
Federal Supplemental Educational Opportunity Grants	NA	84.007	\$163,764
Federal Work-Study Program	NA	84.033	300,953
Federal Pell Grant Program	NA	84.063	<u>4,758,773</u>
Total Student Financial Aid Cluster			5,223,490
<i>TRIO Cluster:</i>			
Student Support Services	NA	84.042A	250,488
Talent Search	NA	84.044A	262,786
Upward Bound	NA	84.047A	281,246
Upward Bound Math Science	NA	84.047M	203,283
Educational Opportunity Centers	NA	84.066A	<u>406,427</u>
Total TRIO Cluster			1,404,230
Disabled Veterans Scholarship	NA	84.064	62,895
Gaining Early Awareness and Readiness for Undergraduate Programs (GEARUP)	NA	84.334A	365,714
CLC DOE	NA	84.335F	<u>19,438</u>
Subtotal			7,075,767
<i>Passed through the Ohio Department of Education</i>			
Adult Education: State Grant Program	AB-S1	84.002	95,376
Higher Education: Institutional Aid (Title III)	N	84.031A	326,697
Vocational Education: Basic Grants to States (Perkins III)	20-C2	84.048	86,122
Tech Prep Education	3E-00	84.243	109,530
Twenty-first Century Community Learning Centers	N	84.287C	155,382
Paraprofessional Education Grant	N	84.367A	<u>845</u>
Subtotal			773,952
<i>Passed through the Scioto County JVS</i>			
Twenty-first Century Community Learning Centers	N	84.287A	<u>269,040</u>
<b>Total United States Department of Education</b>			<b>8,118,759</b>
<b>United States Department of Agriculture</b>			
<i>Passed through the Ohio Department of Education</i>			
Child and Adult Care Food Program	16-CU, 21-CU, 21-FU	10.558	8,732
Summer Meal Program	N	10.559	<u>2,441</u>
<b>Total United States Department of Agriculture</b>			<b>11,173</b>
<b>United States Department of Labor</b>			
<i>Passed through the Ohio School to Work</i>			
School to Work	WK-BE	17.249	189,987
<i>Passed through the Scioto County JVS</i>			
Higher Skills Partnership	N	17.258	<u>9,544</u>
<b>Total United States Department of Labor</b>			<b>199,531</b>
<b>Federal Emergency Management Agency</b>			
<i>Passed through the Ohio Emergency Management Agency</i>			
FEMA	DR-1453	83.544	21,415
<b>Corporation for National and Community Service</b>			
<i>Passed through the Ohio Appalachian Center for Higher Education</i>			
Volunteers in Service to America (VISTA)	N	94.013	10,000
<b>National Aeronautics and Space Administration</b>			
<i>Passed through the TERC</i>			
NASA Student Involvement Project	N	98.010	<u>8,337</u>
<b>Total Federal Financial Assistance</b>			<b><u><u>\$8,369,215</u></u></b>

NA - Not applicable, Direct Grant  
N - Pass through entity numbers could not be located by the University  
See accompanying Notes to the Schedule of Federal Awards Expenditures.

**SHAWNEE STATE UNIVERSITY**  
**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES**  
**FOR THE YEAR ENDED JUNE 30, 2003**

**NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Presentation*

The accompanying Schedule of Federal Awards Expenditures (the Schedule) includes the federal grant transactions of the Shawnee State University (the University) recorded on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

*Subrecipients*

Certain funds are passed through to subgrantee organizations by the University. Expenditures incurred by the subgrantees and reimbursed by the University are presented in the Schedule. The University is also the subrecipient of federal funds which have been subject to testing and are reported as expenditures "pass through" from other entities.

**NOTE 2- FEDERAL WORK-STUDY AND FEDERAL SEOG WAIVER**

For fiscal year 2003, the University received a waiver from the Department of Education for the Institutional Share Requirement under the Federal Work-Study and Federal SEOG programs.

**NOTE 3- FEDERAL FAMILY EDUCATION LOAN PROGRAM**

The following information represents the value of new loans made during the fiscal year ending June 30, 2003 to students of Shawnee State University that the University processed under the Federal Family Education Loan Program (FFEL) (which includes Federal Stafford Loans, Federal Parents' Loans for Undergraduate Students and Federal Supplement Loans for Students):

	<u>CFDA Number</u>	<u>2003 Amount</u>
Federal Family Education Loan Program	84.032	\$8,081,018

# BALESTRA, HARR & SCHERER, CPAs, INC.

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## **REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of Shawnee State University (the University) as of and for the year ended June 30, 2003, and have issued our report thereon dated October 15, 2003. 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.

### **Compliance**

As part of obtaining reasonable assurance about whether the University's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over the financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, members of the Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Balestra, Harr & Scherer, CPAs, Inc.

Balestra, Harr & Scherer, CPAs, Inc.  
October 15, 2003

# BALESTRA, HARR & SCHERER, CPAs, INC.

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## **REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

### **Compliance**

We have audited the compliance of Shawnee State University with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. Shawnee State University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal program is the responsibility of Shawnee State University's management. Our responsibility is to express an opinion on Shawnee State University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Shawnee State University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Shawnee State University's compliance with those requirements.

In our opinion, Shawnee State University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended June 30, 2003.

### **Internal Control Over Compliance**

The management of Shawnee State University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit we considered Shawnee State University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, members of the Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Balestra, Harr & Scherer, CPAs, Inc.

Balestra, Harr & Scherer, CPAs, Inc.  
October 15, 2003

**SHAWNEE STATE UNIVERSITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**OMB CIRCULAR A-133 SECTION .505**  
**FOR THE YEAR ENDED JUNE 30, 2003**

**1. SUMMARY OF AUDITOR-S RESULTS**

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Program-s Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under section .510?	No
(d)(1)(vii)	Major Programs (list):	Student Financial Aid Cluster: Federal SEOG Program CFDA# 84.007; Federal Work-Study Program CFDA# 84.033; PELL Grant Program CFDA# 84.063; Federal Family Education Loan Program CFDA #84.032 & Trio Cluster: Student Support Services CFDA #84.042A; Talent Search CFDA #84.044A; Upward Bound CFDA #84.047A; Upward Bound Math Science CFDA #84.047M; Educational Opportunity Centers CFDA #84.066A
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$493,507 Type B: all others
(d)(1)(ix)	Low Risk Auditee ?	Yes

**SHAWNEE STATE UNIVERSITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**OMB CIRCULAR A-133 SECTION .505**

**FOR THE YEAR ENDED JUNE 30, 2003**

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED  
 IN ACCORDANCE WITH GAGAS**

Finding Number	None
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**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

Finding Number	None
CFDA Title and Number	
Federal Award Number/Year	
Federal Agency	
Pass-Through Agency	





**Auditor of State  
Betty Montgomery**

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**SHAWNEE STATE UNIVERSITY**

**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  
JANUARY 8, 2004**