

SHAWNEE STATE UNIVERSITY
Portsmouth, Ohio

FINANCIAL STATEMENTS
June 30, 2011 and 2010



Dave Yost • Auditor of State

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

We have reviewed the *Report of Independent Auditors on Financial Statements* of the Shawnee State University, 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 is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

November 28, 2011

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SHAWNEE STATE UNIVERSITY
Portsmouth, Ohio

FINANCIAL STATEMENTS
June 30, 2011 and 2010

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REPORT OF INDEPENDENT AUDITORS ON FINANCIAL STATEMENTS

Board of Trustees
Shawnee State University
Portsmouth, Ohio

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Shawnee State University (“the University”), a component unit of the State of Ohio, as of and for the years ended June 30, 2011 and 2010, which collectively comprise 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 opinions 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 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 audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial positions of the business-type activities and discretely presented component unit of the University, as of June 30, 2011 and 2010, and the changes in its financial position and its cash flows where applicable 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 University’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 expenditures of federal awards 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 expenditures of federal awards 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 basic financial statements taken as a whole.

(Continued)

The Management's Discussion and Analysis on pages 3 - 10 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.

Crowe Horwath LLP

Crowe Horwath LLP

Columbus, Ohio
October 14, 2011

SHAWNEE STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the fiscal years ended June 30, 2011 and 2010

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, 2011. 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.

In addition, in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the Shawnee State University Development Foundation's Financial Statements have been included in this annual report. This information has been provided on separate financial statements. Shawnee State University's "Management's Discussion and Analysis" and Shawnee State University's "Notes To Financial Statements" reflect only information related to the University.

Financial Highlights

Key financial highlights for 2011 are as follows:

- Total net assets increased \$3,057,070.
- Total assets increased \$1,978,463. Current assets increased \$209,018 and non-current assets (excluding capital assets) increased \$331,981 primarily as the result of the increased market value of Investments. Construction related to the expansion of the University's Student Center is a significant factor in the net capital assets increase of \$1,437,464.
- Total liabilities decreased \$1,078,607; current liabilities decreased \$385,943 and non-current liabilities decreased \$692,664 primarily due to the reduction in bonds and accounts payable related to the University Center renovation.
- Total revenue increased \$5,262,782 from 2010 to 2011 compared with an increase of \$4,968,564 from 2009 to 2010.
- Total expenses increased \$4,379,834 from 2010 to 2011 as compared with \$1,968,004 from 2009 to 2010.
- Non-operating revenue increased \$2,917,928 primarily as a result of increased investment revenue.
- Non-operating expenses increased \$832,139 primarily as a result of the interest expense increase associated with capital assets newly placed into service.

Using this Financial Report

This annual report consists of two parts: (1) Management's Discussion and Analysis and the basic financial statements for Shawnee State University, and (2) the basic financial statements for the Shawnee State University Development Foundation. The basic financial statements for Shawnee State University include a statement of net assets, statement of revenues, expenses and changes in net assets, and a statement of cash flows. The basic financial statements for the Shawnee State University Development Foundation include a statement of financial position and a statement of activities.

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SHAWNEE STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the fiscal years ended June 30, 2011 and 2010

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

The Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets present information about the University and its activities in a way that helps answer the question, "How did Shawnee State University do financially during 2011?" The Statement of Net Assets includes all short-term and long-term assets and liabilities, both financial and capital. 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.

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, and condition of facilities 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 equal net assets. The University's assets, liabilities, and net assets as of June 30, 2011, 2010, and 2009 are presented below:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets:			
Current assets	\$ 11,324,542	\$ 11,115,524	\$ 19,009,798
Capital assets, net	89,509,388	88,071,924	81,643,794
Non-current assets	<u>16,884,797</u>	<u>16,552,816</u>	<u>15,248,116</u>
Total assets	<u>117,718,727</u>	<u>115,740,264</u>	<u>115,901,708</u>
Liabilities:			
Current liabilities	6,464,317	6,850,260	8,496,302
Non-current liabilities	<u>19,654,051</u>	<u>20,346,715</u>	<u>21,036,239</u>
Total liabilities	<u>26,118,368</u>	<u>27,196,975</u>	<u>29,532,541</u>
Net Assets:			
Invested in capital assets, net of related debt	72,803,461	72,096,794	71,129,700
Restricted, expendable	379,909	512,843	881,098
Unrestricted	<u>18,416,989</u>	<u>15,933,652</u>	<u>14,358,369</u>
Total net assets	<u>\$ 91,600,359</u>	<u>\$ 88,543,289</u>	<u>\$ 86,369,167</u>

Total assets of the University increased \$1,978,463 in 2011. Current assets increased \$209,018 and non-current assets (excluding capital assets) increased \$331,981. The increase in current assets in 2011 is predominantly attributable to an increase in student account receivables due to increased enrollment and tuition fees in 2011. Net assets increased \$3,057,070. Total liabilities decreased \$1,078,607 as compared to a decrease in 2010 of \$2,335,566 and an increase of \$3,792,050 in 2009 primarily attributable to the new bond series. Current liabilities decreased \$385,943 in 2011 from 2010 due to the reduction of pending payments to University Center renovation contractors at year end. The decrease of \$692,664 in 2011 from 2010 in non-current liabilities is attributable to the reduction in bonds payable and deferred revenue related to the University Center project.

(Continued)

SHAWNEE STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the fiscal years ended June 30, 2011 and 2010

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 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 revenues, expenses, and changes in net assets for fiscal years ended June 30, 2011, June 30, 2010, and June 30, 2009 are as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues			
Tuition, fees, and other student charges	\$ 22,716,106	\$ 20,431,305	\$ 18,742,448
Grants and contracts	4,129,536	4,870,064	4,746,239
Sales and services	1,824,775	1,738,558	1,656,337
Other income	481,630	357,222	454,089
Non-operating revenues			
Investment income	1,998,979	1,388,600	(1,536,654)
State appropriations	15,511,269	15,172,781	17,448,098
State appropriations – State Fiscal Stabilization Funds	2,158,210	2,056,558	-
Other grants	16,159,410	14,292,001	11,936,301
Capital appropriations	<u>1,220,109</u>	<u>630,153</u>	<u>2,521,820</u>
Total revenues	<u>66,200,024</u>	<u>60,937,242</u>	<u>55,968,678</u>
Operating expenses			
Instruction and research	21,266,619	21,029,373	19,813,592
Public service	2,874,777	3,456,141	3,568,800
Academic support	3,058,492	2,747,627	2,869,845
Student services	4,010,556	3,805,205	3,822,169
Institutional support	8,996,219	8,066,606	8,101,718
Operation and maintenance of plant	5,230,931	4,848,292	4,729,566
Scholarships	7,779,164	6,730,334	6,472,193
Depreciation	3,098,850	2,603,891	2,472,708
Auxiliary enterprises	5,964,488	5,444,932	4,907,936
Non-operating expenses			
Interest on capital debt	788,791	-	-
Loss on disposal of capital assets	62,318	18,970	24,840
Amortization of debt issuance cost	<u>11,749</u>	<u>11,749</u>	<u>11,749</u>
Total expenses	<u>63,142,954</u>	<u>58,763,120</u>	<u>56,795,116</u>
Increase (decrease) in net assets	<u>\$ 3,057,070</u>	<u>\$ 2,174,122</u>	<u>\$ (826,438)</u>

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, as constrained by State laws. Based on State regulations, rates charged for undergraduate in-state tuition and fees increased 3.5% effective Summer 2010 semester.

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SHAWNEE STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the fiscal years ended June 30, 2011 and 2010

During 2011, the University generated revenues from tuition and fees in excess of \$22.7 million attributable to the 3.5% increase in undergraduate tuition and fees, a 4.3% increase in graduate tuition and fees and increased enrollment. Tuition and fees represent 34.3% of the University's total revenue in 2011, 33.5% in 2010 and 33.5% in 2009.

The 15.2% decrease in Grants and Contracts revenue from \$4,870,064 in 2010 to \$4,129,536 in 2011 and the 16.8% decrease in Public Service expenses from \$3,456,141 in 2010 to \$2,874,777 in 2011 are both a result of several grants (Immersive Technology, OVITA Wired and STEM Foreign Language grants being the largest) maturing or nearing the end of their grant cycle in 2011.

The 11.5% increase in Institutional Support expense from \$8,066,606 in 2010 to \$8,996,219 in 2011 is primarily attributable to the lease expense for the new Education Building, expenditures to cover upgrades in administrative software systems and cost increases in other software support agreements. The 15.6% increase in Scholarship expense from \$6,730,334 in 2010 to \$7,779,164 in 2011 is a result of an increase of over \$1.8 million in 2011 Pell awards. Depreciation expense of \$3,098,850 in 2011 is a 19% increase over the \$2,603,891 depreciation expense in 2010. The increase is predominantly attributable to the depreciation expense for the University Center renovation completed in fiscal year 2011.

State appropriations represent 26.7% of the University's total revenue in 2011, 28.3% in 2010, and 31.2% in 2009. State Fiscal Stabilization funds comprise approximately 12% of total state appropriations. These percentages illustrate that tuition and fee revenue alone is not sufficient to cover relevant operational expenses. The University is dependent upon a predictable and relatively stable level of state appropriation funding.

During 2011, investment income amounted to a positive \$1,998,979 as compared to a positive \$1,388,600 during 2010 and a negative \$1,536,654 during 2009. The increase in investment markets in general is mirrored in the University's increase in investment income.

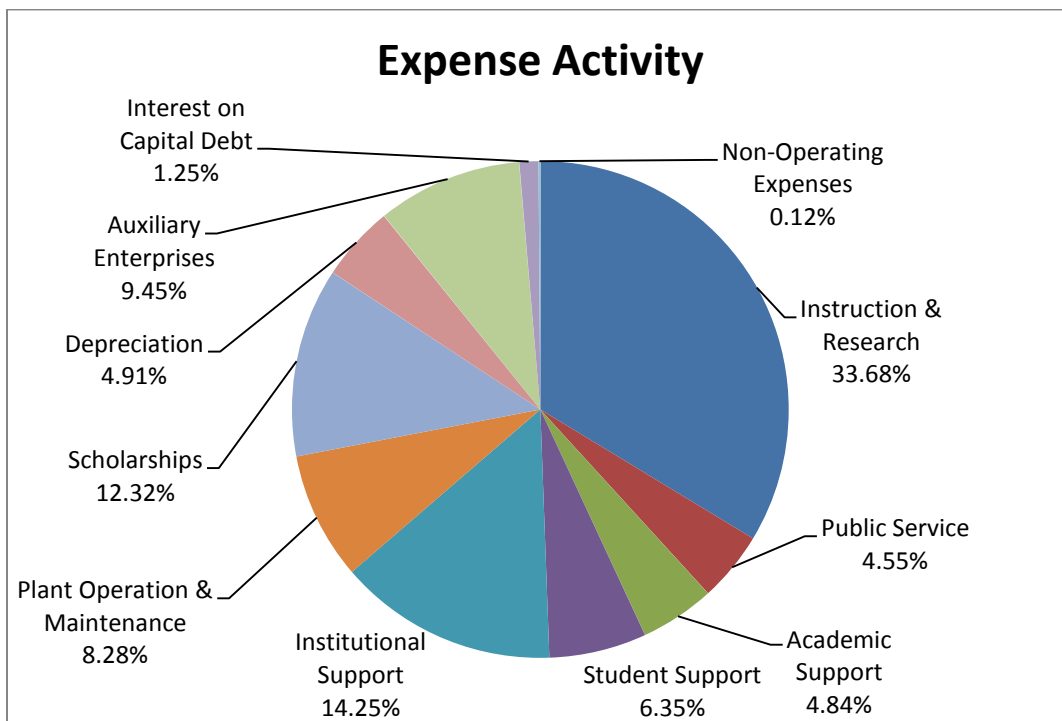
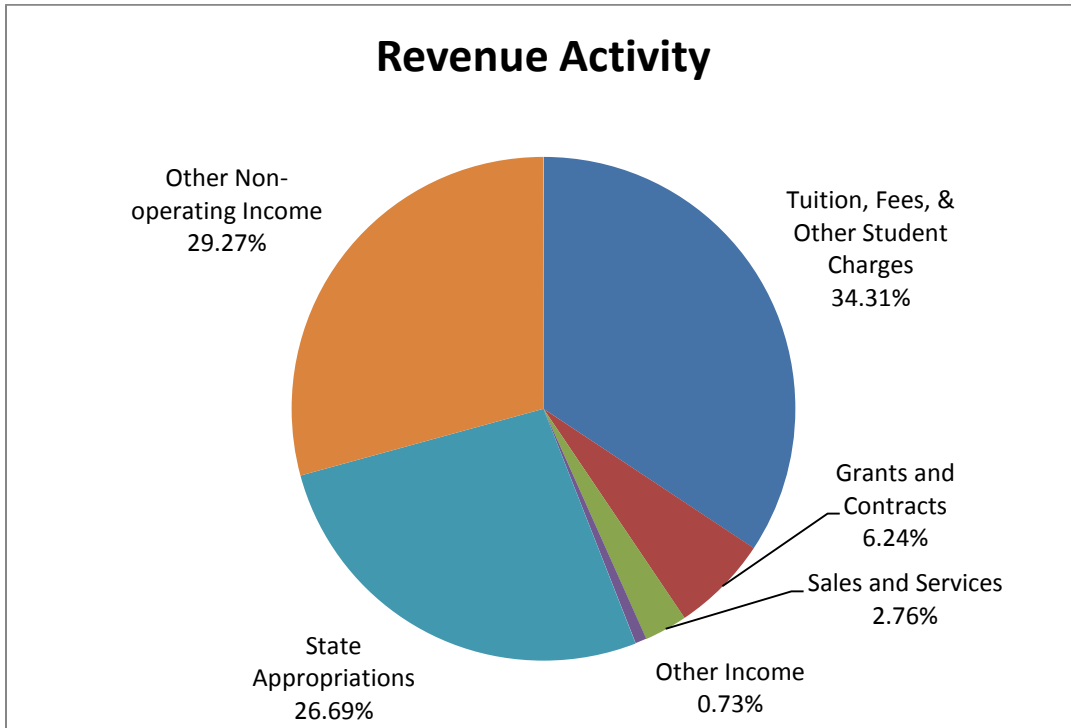
Pell Grants and certain other grants are considered non-exchange transactions and therefore are reflected as non-operating revenue. Other Grants revenue experienced a 13.1% increase. Income from federal aid programs such as Pell, SEOG, ACG and TEACH amounted to \$13.1 million in 2011 as compared with \$11.2 million in 2010. These grants represent 24.4% of the University's total revenue in 2011, 23.5% in 2010, and 21.3% in 2009.

Capital appropriations increased from \$630,153 in 2010 to \$1,220,109 in 2011 as a result of two projects, the new Student Business Center in the University Center and the installation of the Campus Wide Public Address System. The majority of the 2010 capital appropriations were related to the University Student Center Expansion Project and land acquisitions. In 2009 a substantial portion of state funds were appropriated for Facilities Office renovations, completion of the Rhodes Center project, and architectural services related to the University Student Center expansion.

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SHAWNEE STATE UNIVERSITY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the fiscal years ended June 30, 2011 and 2010

The following graphs summarize Shawnee State University's revenue and expense activity for the fiscal year ending June 30, 2011.



(Continued)

SHAWNEE STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the fiscal years ended June 30, 2011 and 2010

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, 2011. A comparison of cash sources and uses during fiscal years 2011, 2010 and 2009 is presented below:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<u>Cash provided (used) by:</u>			
Operating activities	\$ (31,322,044)	\$ (30,597,185)	\$ (27,311,988)
Non-capital financing activities	33,764,852	31,537,753	29,349,428
Capital and related financing activities	(4,514,718)	(9,172,038)	(9,821,795)
Investing activities	<u>3,869,061</u>	<u>7,377,112</u>	<u>7,814,430</u>
Net increase (decrease) in cash and cash equivalents	1,797,151	(854,358)	30,075
Cash and cash equivalents –			
Beginning of the year	<u>3,530,585</u>	<u>4,384,943</u>	<u>4,354,868</u>
End of the year	<u>\$ 5,327,736</u>	<u>\$ 3,530,585</u>	<u>\$ 4,384,943</u>

Cash and cash equivalents increased by \$1,797,151 from 2010 to 2011, compared to a decrease of \$854,358 from 2009 to 2010 mainly due to a transfer of \$1.6 million from Investments to cash in 2011.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2011, the University had \$89,509,388 in net capital assets. This reflects an overall increase of \$1,437,464 in net capital assets from 2010.

Capital assets, net of depreciation
At June 30,

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Land	\$ 7,934,297	\$ 7,934,297	\$ 7,768,581
Land Improvements	6,928,632	6,928,632	6,928,631
Buildings and Improvements	66,319,725	46,712,394	45,641,872
Equipment	3,674,693	3,608,117	2,982,834
Library Books	4,596,607	4,593,108	4,538,611
Construction in Progress	<u>55,434</u>	<u>18,295,376</u>	<u>13,783,265</u>
Totals	<u>\$ 89,509,388</u>	<u>\$ 88,071,924</u>	<u>\$ 81,643,794</u>

(Continued)

SHAWNEE STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the fiscal years ended June 30, 2011 and 2010

Debt Administration

At June 30, 2011, the University had one outstanding General Revenue Bonds Payable totaling \$16,505,000; \$535,000 of which is due within one year. This reflects an overall decrease of \$510,000 in the General Revenue Bonds Payable liability from 2010.

Outstanding Debt at Year End

	<u>2011</u>	<u>2010</u>	<u>2009</u>
General Revenue Bonds Payable:			
4.0% to 5.0% - Series 2007	\$ <u>16,505,000</u>	\$ <u>17,015,000</u>	\$ <u>17,515,000</u>

The Series 2007 Bonds were issued for the purpose of paying the cost to renovate and construct a new addition to the University Center and for the refunding of the outstanding Series A and Series B Bonds.

Current Financial Issues and Concerns

Shawnee State University's positive FY11 financial performance is primarily attributable to factors such as continued enrollment growth, robust investment recovery, and ongoing focused austerity measures. These positive revenue factors were offset by expenditures such as the incremental increases in instructional costs, expanded student life initiatives, resource augmentations required for enhanced University safety and security operations, facility renovations, essential deferred maintenance needs, and expenditures due to ongoing unfunded state and federal regulatory mandates.

In FY11 the University realized an 11% increase (\$2,284,801) in student tuition and fees resulting primarily from a growth in enrollment of 9% based on full time equivalents coupled with a 3.5% tuition rate adjustment over the prior academic year. The full FY11 state revenue appropriation of nearly \$17.7 million was remitted as the state's revenue picture stabilized during the reporting period. As a result, the anticipated loss of the last month's payment of the state share of instruction (SSI) of approximately \$960,000 was averted with the receipt of this payment as scheduled. Notwithstanding the state's fulfillment of this obligation, fiscal uncertainty continues into the FY12-13 biennium largely due to the recent downturn in the national economy and the loss of the 2009 American Recovery and Reinvestment Act (ARRA) federal stimulus monies as a replacement for reductions to the state's general revenue funds (GRF). Incorporated into the FY11 state revenue was half of the University's special supplement of about \$5.2 million allocated for the FY10-11 biennium. Substantially sustained at this level for two biennia, indications are that reductions to the special supplement are likely. Further, the continued distribution of the supplement in whole or in part has, by legislative mandate, been tied to the acceptance of a utilization plan by the Chancellor and the State of Ohio's Controlling Board. Major concerns for the upcoming FY12-13 biennium are that the state will not be able to fully replace the ARRA funds; use of the special supplement will be restricted or its future availability eliminated; and the national financial market will continue its downturn. These issues are further compounded by economic factors affecting students' and parents' abilities to acquire personal higher education funding. The volatility of institutional and personal revenue sources has become a theme that continues to endure for higher education in the nation.

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SHAWNEE STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the fiscal years ended June 30, 2011 and 2010

Along with the improved revenue position, focused cost-containment measures continued into FY11 culminating in an overall increase in the University's unrestricted Educational and General (E&G) reserves of approximately \$1.8 million. The measures that proved particularly effective included scrutinizing all vacancies before replacing personnel, realigning job duties and responsibilities where feasible, maintaining broadly categorized contingency accounts for major expenditures, and the development and communication of budgetary priorities to campus budget directors. Targeted and intentional austerity strategies that enable the institution to respond to operational and instructional needs are continued into the FY12 budget. The University entered into a lease agreement for an academic building in order to address expanded classroom needs. We have incurred no new bond debt beyond the 2007 bond issuance that financed the rehabilitation and renovation of the University Center. Indications are that the reduction of federal grant dollars requiring greater reliance upon general operating funds will become more pronounced in the near term. Finally, Ohio public universities' fiscal conditions are measured annually via ratios established by Senate Bill 6 ("SB 6"). With the positive FY11 financial outcome, the University's SB 6 ratio will improve over FY10 ratio of 3.7 (out of 5.0).

Shawnee State University continues to participate in collaborative agreements and joint purchasing contracts as well as other initiatives that provide efficiencies and cost saving opportunities. The University is committed to a sustained effort to modernize and upgrade its business, technology, and communications systems. Further, we continue to respond to external factors that significantly influence institutional performance including, the extended unstable economic environment, demands for enhanced student life activities and support services, adoption of cutting-edge instructional delivery methods, and the commitment to implement and monitor recently adopted federal and state regulatory mandates. Affirmatively responding to these factors requires continuous re-evaluation of institutional strategic plans, policies, and processes. These efforts and strategies that incorporate targeted austerity measures have become the norm and have to date enabled the University to effectively navigate through the sea of uncertain and volatile fiscal challenges.

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

	<u>2011</u>	<u>2010</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 5,327,736	\$ 3,530,585
Short-term investments	<u>265,187</u>	<u>2,479,165</u>
Total cash and short-term investments	5,592,923	6,009,750
Receivables		
Accounts (net of allowance for doubtful accounts of \$1,321,181 in 2011 and \$1,082,053 in 2010, respectively)	5,420,800	4,642,485
Notes	82,802	76,472
Amounts due from primary government	12,375	189,218
Interest receivable	8,775	8,607
Inventory	39,546	52,033
Deferred charges	11,749	11,749
Prepaid items	<u>155,572</u>	<u>125,210</u>
Total current assets	11,324,542	11,115,524
Non-current assets		
Investments	16,626,317	16,282,587
Deferred charges	258,480	270,229
Capital assets, net	<u>89,509,388</u>	<u>88,071,924</u>
Total non-current assets	<u>106,394,185</u>	<u>104,624,740</u>
Total assets	<u>\$ 117,718,727</u>	<u>\$ 115,740,264</u>

(Continued)

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

	<u>2011</u>	<u>2010</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 498,605	\$ 925,270
Accrued wages and benefits	3,493,586	3,353,491
Compensated absences payable	196,152	189,422
Bonds payable	535,000	510,000
Accrued interest payable	65,267	66,967
Deferred revenue	1,484,127	1,581,005
Deposits held by and due to others	<u>191,580</u>	<u>224,105</u>
Total current liabilities	<u>6,464,317</u>	<u>6,850,260</u>
Non-current liabilities		
Compensated absences payable	1,765,365	1,704,802
Deferred revenue	1,918,686	2,136,913
Bonds payable	<u>15,970,000</u>	<u>16,505,000</u>
Total non-current liabilities	<u>19,654,051</u>	<u>20,346,715</u>
Total liabilities	<u>26,118,368</u>	<u>27,196,975</u>
Net assets		
Invested in capital assets, net of related debt	72,803,461	72,096,794
Restricted		
Expendable		
Loans	112,983	112,983
Other	266,926	399,860
Unrestricted	<u>18,416,989</u>	<u>15,933,652</u>
Total net assets	<u>91,600,359</u>	<u>88,543,289</u>
Total liabilities and net assets	<u>\$ 117,718,727</u>	<u>\$ 115,740,264</u>

See accompanying notes to financial statements.

SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION
 STATEMENTS OF FINANCIAL POSITION
 June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Cash and cash equivalents	\$ 1,977,515	\$ 1,717,968
Investments	13,205,361	10,623,465
Contributions receivable, net	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>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 3,809	\$ 7,965
Deposits held and due to others	92,707	94,489
Annuity payment liability	467,438	462,102
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>

See accompanying notes to financial statements.

SHAWNEE STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
REVENUES		
Operating revenues		
Student tuition and fees (net of scholarship allowances of \$12,251,747 in 2011 and \$10,968,770 in 2010)	\$ 22,716,106	\$ 20,431,305
Federal grants and contracts	2,806,985	3,353,383
State grants and contracts	460,477	709,026
Local grants and contracts	249,632	215,421
Private gifts, grants and contracts	612,442	592,234
Sales and services	1,824,775	1,738,558
Miscellaneous	<u>481,630</u>	<u>357,222</u>
Total operating revenues	<u>29,152,047</u>	<u>27,397,149</u>
 EXPENSES		
Operating expenses		
Education and general		
Instruction and departmental research	21,266,619	21,029,373
Public service	2,874,777	3,456,141
Academic support	3,058,492	2,747,627
Student services	4,010,556	3,805,205
Institutional support	8,996,219	8,066,606
Operation and maintenance of plant	5,230,931	4,848,292
Scholarships and fellowships	7,779,164	6,730,334
Depreciation expense	3,098,850	2,603,891
Auxiliary enterprises	<u>5,964,488</u>	<u>5,444,932</u>
Total operating expenses	<u>62,280,096</u>	<u>58,732,401</u>
 Operating loss	<u>(33,128,049)</u>	<u>(31,335,252)</u>
 NON-OPERATING REVENUES (EXPENSES)		
State appropriations	15,511,269	15,172,781
State appropriations-State Fiscal Stabilization Funds	2,158,210	2,056,558
Federal, state and local grants and contracts	15,333,618	13,388,596
Private grants and contracts	825,792	903,405
Investment income	1,998,979	1,388,600
Interest on capital asset related debt	(788,791)	-
Loss on disposal of capital assets	(62,318)	(18,970)
Amortization of debt issuance cost	<u>(11,749)</u>	<u>(11,749)</u>
Net non-operating revenues	<u>34,965,010</u>	<u>32,879,221</u>
 Change in net assets before capital appropriations	1,836,961	1,543,969
 Capital appropriations	<u>1,220,109</u>	<u>630,153</u>
 CHANGE IN NET ASSETS	3,057,070	2,174,122
 NET ASSETS		
Beginning of year	<u>88,543,289</u>	<u>86,369,167</u>
 End of year	<u>\$ 91,600,359</u>	<u>\$ 88,543,289</u>

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>
Revenues, gains and other support					
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 on 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>
Expenses					
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>
Change in net assets	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>
Net assets at end of year	<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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains, and other support				
Contributions	\$ 39,099	\$ 610,906	\$ 673,519	\$ 1,323,524
Investment income, net	809,314	280,237	-	1,089,551
Losses on uncollectible 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, gains, and other support	<u>1,318,283</u>	<u>315,478</u>	<u>673,519</u>	<u>2,307,280</u>
Expenses and losses				
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>
Change in net assets	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>

See accompanying notes to financial statements.

SHAWNEE STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Cash received from tuition, fees, and other student charges	\$ 22,222,628	\$ 20,196,046
Cash received from gifts, grants and contracts	3,531,279	4,991,474
Cash received from sales and services	1,851,720	1,845,190
Cash received from miscellaneous services	481,630	357,222
Cash payments to suppliers for goods and services	(14,570,186)	(15,010,325)
Cash payments to employees for services	(25,506,055)	(24,863,893)
Cash payments for employee benefits	(11,553,896)	(11,382,565)
Cash payments for scholarships and fellowships	<u>(7,779,164)</u>	<u>(6,730,334)</u>
Net cash from operating activities	(31,322,044)	(30,597,185)
Cash flows from non-capital financing activities		
State appropriations	17,669,479	17,229,339
Non-exchange Gifts, Grants and Contracts	16,159,410	14,292,001
Net cash from agency transactions	<u>(64,037)</u>	<u>16,413</u>
Net cash from non-capital financing activities	33,764,852	31,537,753
Cash flows from capital and related financing activities		
Capital appropriations	1,396,952	513,163
Payments for capital acquisitions	(4,598,070)	(8,361,601)
Principal payments	(510,000)	(500,000)
Interest payments	<u>(803,600)</u>	<u>(823,600)</u>
Net cash from capital and related financing activities	(4,514,718)	(9,172,038)
Cash flows from investing activities		
Interest on investments	323,875	491,552
Proceeds for sales and maturities of investments	4,261,546	7,357,475
Purchase of securities	<u>(716,360)</u>	<u>(471,915)</u>
Net cash from investing activities	<u>3,869,061</u>	<u>7,377,112</u>
Net change in cash	1,797,151	(854,358)
Cash and cash equivalents, beginning of year	<u>3,530,585</u>	<u>4,384,943</u>
Cash and cash equivalents, end of year	<u>\$ 5,327,736</u>	<u>\$ 3,530,585</u>

(Continued)

SHAWNEE STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating loss	\$ (33,128,049)	\$ (31,335,252)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities		
Depreciation expense	3,098,850	2,603,891
Changes in assets and liabilities		
Accounts receivable	(756,461)	(32,948)
Notes receivable	(6,330)	(23,713)
Prepaid items	(25,212)	44,675
Inventory	12,487	(13,835)
Accounts payable	(426,665)	(2,027,811)
Accrued wages and benefits	144,040	98,668
Compensated absences payable	67,293	39,697
Deferred revenue	<u>(301,997)</u>	<u>49,443</u>
Net cash used by operating activities	<u>\$ (31,322,044)</u>	<u>\$ (30,597,185)</u>

See accompanying notes to financial statements.

NOTE 1 - REPORTING ENTITY

Shawnee State University (the "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.

In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Reporting Entity*, the University's financial statements are included, as a discrete entity, on the State of Ohio's Consolidated Annual Financial Report. The financial statements of the Shawnee State University Development Foundation are included in this report in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units – an amendment of GASB Statement No. 14*. This Statement provides additional guidance to determine whether certain organizations, such as not-for-profit foundations, for which the primary institution is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the primary entity. Generally, this statement requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of an institution.

The Shawnee State University Development Foundation (the "Foundation") is a legally separate, tax-exempt organization supporting the University. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The Foundation's Board of Directors is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, the resources the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of 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 GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant Shawnee State University accounting policies are described below.

Basis of Presentation

In accordance with GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities* and subsequent standards issued by GASB, the University has elected to report as an entity engaged in business-type activities. GASB No. 35 establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net assets categories:

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- **Invested in capital assets, net of related debt:** Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- **Restricted:**
 - Nonexpendable* – Net assets subject to externally imposed stipulations that they be maintained permanently by the University.
 - Expendable* – Net assets whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time. These net assets principally represent amounts for specified capital construction projects.
- **Unrestricted:** Net assets whose use by the University is not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

When an expenditure is incurred for purposes for which both restricted and unrestricted funds are available, it is the University's policy to apply restricted resources first, then unrestricted resources as needed.

The financial statements presentation is intended to provide a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

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 predominantly made up of three categories of income. The first consists 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. The second is the net original issue premium of General Receipt Bonds issued in 2007. This revenue is computed using an effective interest rate method over the life of the bonds. The third is revenue received from the University food service and bookstore vendors. These funds are designated for improvements to the dining facilities and the bookstore as part of the University Center renovation project. The funding is dependent on retaining the respective contracts with these vendors. The straight line method will be used to amortize the revenue over the ten year periods of the contracts.

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.

(Continued)

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deposits and Investments

For the year ended June 30, 2005, the University implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*. This statement amends certain custodial risk provisions of GASB Statement No. 3 and addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at fair value. The University has investment management agreements with the Common Fund and Mellon, as permitted by State statute. The agreements allow (within statute limits) investment in both debt and equity instruments.

The University has invested funds in the State Treasury Asset Reserve of Ohio ("STAR Ohio"). 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, 2011.

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.

Short-term investments represent investments with maturities of between 90 days and one year.

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff, the majority of each residing in the State of Ohio. Accounts receivable also include amounts due from the federal government, state and local governments or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

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 capital 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:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	25-50 years
Machinery and Equipment	5-20 years
Licensed Vehicles	5-10 years

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Shawnee State University's policy is to capitalize net interest on construction projects until completion of the project. The amount of the capitalized interest is 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. No capitalized interest was recorded for fiscal year 2011. Capitalized interest for fiscal year 2010 was \$689,393.

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.

Operating Revenues and Expenses

The University's policy for defining operation activities as reported on the statement of revenues, expenses, and changes in net assets is to report those activities that generally result from exchange transactions, such as payments received for providing services or payments made for services or goods received. Nearly all of the University's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues as defined by GASB Statements Nos. 24, 34 and 35, including state appropriations, Pell grants and investment income.

Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statements of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain federal, state, local and nongovernmental grants are recorded as either operating or non-operating revenues in the University's financial statements based on whether or not they are considered exchange transactions. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the year end 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 in which the services are consumed.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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.

Adoption of New Accounting Pronouncements

Adoption of New Accounting Pronouncements – In fiscal year 2011, the provisions of the following GASB Statements became effective:

GASB Statement No. 54, *Fund Balance Reporting*, changes and expands how fund balances are classified based on the purpose for which the resources were received and the level of constraint placed on the resources. This statement is effective for years beginning after June 15, 2010 but is not applicable to business-type enterprises like the University.

GASB Statement No. 59, *Financial Instruments Omnibus*. Statement No. 59 updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This pronouncement had no impact on the University's financial statements or disclosures.

Newly Issued Accounting Pronouncements – In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This Statement requires disclosures about an SCA including a general description of the arrangement and information about the associated assets, liabilities, and deferred inflows, the rights granted and retained, and guarantees and commitments. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity* and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012.

In December 2010, GASB issue Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011.

In June 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions-an amendment of GASB Statement No. 53*. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011.

Management has not yet determined the impact that GASB Statements No. 60-64 will have on the University's financial statements and disclosures.

Reclassifications

Certain 2010 items have been reclassified to conform to the 2011 presentation. Reclassifications had no impact on the change in net assets or total net assets.

(Continued)

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

NOTE 3 - DEPOSITS 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, and the State Treasury Asset Reserve of Ohio ("STAR Ohio"), which is managed by the State of Ohio. The University also has investment management agreements with the Common Fund and Mellon, as permitted by state statute. The agreements allow (within statute limits) investment in both debt and equity instruments.

Deposits

Custodial credit risk: At June 30, 2011, the carrying amount of the University's deposits, (which consist of cash, excluding cash on hand of \$4,543, deposits held by trustee, and investments) was \$5,323,193 and the bank balance was \$6,024,902. The difference in the carrying amount and bank balance results from outstanding checks and deposits in transit. Of the bank balance, \$250,000 is covered by federal deposit insurance. The remaining balance at June 30, 2011 and 2010 of approximately \$5,774,900 and \$4,272,000, respectively, 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.

Investments

All investments are stated at fair value. Investments received by gift are stated at fair value at the date of gift if a fair value is available, and otherwise at an appraised or nominal value.

As of June 30, 2011, the University had the following investments and maturities using the segmented time distribution method:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>		
		<u><1</u>	<u>1-5</u>	<u>6-10</u>
Bond Mutual Funds	\$ 5,766,242	\$ -	\$ 2,550,882	\$ 3,215,360
Money Market Funds	365,918	304,980	60,938	-
STAR Ohio Funds	<u>3,435,044</u>	<u>3,435,044</u>	<u>-</u>	<u>-</u>
	9,567,204	<u>\$ 3,740,024</u>	<u>\$ 2,611,820</u>	<u>\$ 3,215,360</u>
Equities and Equity Funds	<u>7,324,300</u>			
	<u>\$ 16,891,504</u>			

(Continued)

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

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

As of June 30, 2010, the University had the following investments and maturities using the segmented time distribution method:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>		
		<u><1</u>	<u>1-5</u>	<u>6-10</u>
Bond Mutual Funds	\$ 5,799,481	\$ -	\$ 2,754,207	\$ 3,045,274
Money Market Funds	3,170,971	3,118,958	52,013	-
STAR Ohio Funds	<u>4,431,212</u>	<u>4,431,212</u>	-	-
	13,401,664	<u>\$ 7,550,170</u>	<u>\$ 2,806,220</u>	<u>\$ 3,045,274</u>
Equities and Equity Funds	<u>5,360,088</u>			
	<u>\$ 18,761,752</u>			

Investments at June 30, 2011 and 2010 are shown in the statement of net assets as current in the amount of \$265,187 and \$2,479,165, respectively, and as non-current in the amount of \$16,626,317 and \$16,282,587, respectively.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University's Investment Policy does not specifically limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The University's Investment Policy limits investments in fixed income securities to government and agency issues and corporate issues in the top four quality rating of recognized credit services. Investments below investment grade and derivatives are specifically prohibited.

As of June 30, 2011 the University had the following investments and quality ratings:

<u>Investment Type</u>	<u>Fair Value</u>	<u>AAA</u>	<u>Quality Ratings</u>	
			<u>AA</u>	<u>BBB</u>
Bond Funds	\$ 5,766,242	\$ -	\$ 5,766,242	\$ -
Money Market Funds	365,918	304,980	60,938	-
STAR Ohio Funds	<u>3,435,044</u>	<u>3,435,044</u>	-	-
	<u>\$ 9,567,204</u>	<u>\$ 3,740,024</u>	<u>\$ 5,827,180</u>	<u>\$ -</u>

As of June 30, 2010 the University had the following investments and quality ratings:

<u>Investment Type</u>	<u>Fair Value</u>	<u>AAA</u>	<u>Quality Ratings</u>	
			<u>AA</u>	<u>BBB</u>
Bond Funds	\$ 5,799,481	\$ -	\$ 3,045,274	\$ 2,754,207
Money Market Funds	3,170,971	3,118,958	-	52,013
STAR Ohio Funds	<u>4,431,212</u>	<u>4,431,212</u>	-	-
	<u>\$ 13,401,664</u>	<u>\$ 7,550,170</u>	<u>\$ 3,045,274</u>	<u>\$ 2,806,220</u>

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The University's Investment Policy limits investment in any single issue other than U.S. government securities to 5% of the total investment portfolio.

(Continued)

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

NOTE 4 - 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.

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.

NOTE 5 - 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 2011, the University maintained comprehensive insurance coverage with a 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.

Coverage provided by this company is as follows:

Real and personal property (\$100,000 deductible)	\$ 175,170,320
Automobile liability (\$100,000 deductible)	1,000,000*
Uninsured motorists (\$100,000 deductible)	1,000,000*
Employee benefits liability (Aggregate)	1,000,000*
General liability per occurrence (\$100,000 deductible)	1,000,000*

* \$50,000,000 excess over general liability and auto liability and \$30,000,000 excess over employer's liability.

(Continued)

NOTE 5 - RISK MANAGEMENT (Continued)

The University has a fully insured health care plan. No significant change occurred in employee health care coverage in 2011 or 2010.

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 6 - 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 7 - 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.

Ohio Public Employees Retirement System (OPERS): Employees (except for teaching faculty) participate in OPERS, a cost-sharing multiple-employer public employee retirement system operated by the State. OPERS provides retirement and disability benefits, access to health care benefits based on eligible years of service to members and beneficiaries, annual cost of living adjustments, and death benefits to plan members and beneficiaries. The three plans OPERS administers are the Traditional Pension Plan, Member-Directed Plan and Combine Plan. 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 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 10% and the employer contribution rate is 14%. The University's contributions to OPERS for the years ending June 30, 2011, 2010 and 2009 were \$1,489,653, \$1,429,771, and \$1,368,544, respectively, which are equal to the required contributions for each year.

State Teachers Retirement System of Ohio (STRS Ohio): The University participates in STRS Ohio, a cost-sharing multiple employer public employee retirement system that is funded on a pay-as-you-go basis and administered by the State Teachers Retirement Board. STRS Ohio provides basic retirement benefits, disability, survivor, and access to 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.

(Continued)

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

NOTE 7 - RETIREMENT PLANS (Continued)

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 10% of their annual covered salary and the University is required to contribute 14%. The University's contribution for pension obligations to STRS Ohio for the fiscal years ending June 30, 2011, 2010, and 2009 was \$1,712,283, \$1,599,343, and \$1,533,788, respectively. All required contributions have been made for the three fiscal years.

Alternative Retirement Plan (ARP): All newly hired full time administrative employees, classified support staff, and faculty are eligible to choose an Alternative Retirement Plan ("ARP") rather than the STRS Ohio or 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.

Effective July 1, 2004, an employee in a STRS Ohio eligible position contributes 10% of their earned income to their ARP account. The University contributes 14%. For the period July 1, 2010 through June 30, 2011, 10.5% of this amount was paid into the member's ARP account. The remaining 3.5% was paid to STRS Ohio, as required by state legislation, to cover un-funded liabilities. The employee receives no benefits from STRS Ohio for the 3.5% contributed by the employer.

An OPERS eligible employee contributes 10% of their earned income to their ARP account. The University contributes 14%. Effective January 2008, 13.23% of the University's contribution is paid into the member's ARP account. The remaining amount of .77% is paid to OPERS, a mitigating contribution implemented to offset the negative financial impact realized by OPERS by offering retirement plan options, such as an ARP. This mitigating rate is provided for by law, but the actual percentage is determined by the OPERS Retirement Board, upon the advice and counsel of the Retirement Board's Actuary, in conjunction with the Director of Finance.

As of June 30, 2011, there are approximately 50 active participants in an ARP. The University's contribution for employees enrolled in ARP accounts for fiscal year 2011, 2010, and 2009 was \$444,341, \$443,708, and \$460,474, respectively.

(Continued)

NOTE 8 - POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System (OPERS): OPERS provides access to post-retirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Access to health care coverage for disability recipients and primary survivor recipients is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 5.5% from 1/1/10-2/28/10 and 5.0% from 3/1/10-12/31/10, 7.0% from 1/1/09-3/31/09 and 5.5% from 4/1/09-12/31/09 and 7.0% in 2008. The portion of employer contributions allocated to health care for members in the Combined Plan was 4.73% from 1/1/10-2/28/10 and 4.23% from 3/1/10-12/31/10, 5.90% from 1/1/09-3/31/09 and 4.73% from 4/1/09-12/31/09 and 5.90% in 2008. The portion of the University's 2011, 2010 and 2009 contributions to OPERS used to fund post-retirement benefits was approximately \$531,955, \$561,757, and \$684,272. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

State Teachers Retirement System (STRS Ohio): STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Pursuant to Chapter 3307 of the Ohio Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

Under Ohio Law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of the covered payroll was allocated to post-employment health care for 2011, 2010 and 2009. The portion of the University's 2011, 2010 and 2009 contributions to STRS Ohio used to fund post-employment benefits was \$122,305, \$114,239, and \$109,556, respectively.

NOTE 9 - 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. Vacation time may be accumulated up to a maximum of twice the employee's current accrual rate. 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.

(Continued)

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

NOTE 10 - LONG-TERM OBLIGATIONS

The changes in the University's long-term obligations during fiscal year 2011 were as follows:

	<u>Principal Outstanding July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Principal Outstanding June 30, 2011</u>	<u>Amounts Due in One Year</u>
2007 General Receipts Bonds, Series 2007	\$ 17,015,000	\$ -	\$ 510,000	\$ 16,505,000	\$ 535,000
Compensated Absences	<u>1,894,224</u>	<u>239,109</u>	<u>171,817</u>	<u>1,961,517</u>	<u>196,152</u>
Total Long-Term Liabilities	<u>\$ 18,909,224</u>	<u>\$ 239,109</u>	<u>\$ 681,817</u>	<u>\$ 18,466,517</u>	<u>\$ 731,152</u>

The changes in the University's long-term obligations during fiscal year 2010 were as follows:

	<u>Principal Outstanding July 1, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Principal Outstanding June 30, 2010</u>	<u>Amounts Due in One Year</u>
2007 General Receipts Bonds, Series 2007	\$ 17,515,000	\$ -	\$ 500,000	\$ 17,015,000	\$ 510,000
Compensated Absences	<u>1,854,527</u>	<u>180,016</u>	<u>140,319</u>	<u>1,894,224</u>	<u>189,422</u>
Total Long-Term Liabilities	<u>\$ 19,369,527</u>	<u>\$ 180,016</u>	<u>\$ 640,319</u>	<u>\$ 18,909,224</u>	<u>\$ 699,422</u>

On June 5, 2007, the University issued \$18,000,000 of General Receipts Bonds, Series 2007, dated June 5, 2007, maturing at various dates, through June 1, 2034 at coupon rates ranging from 4.0% to 5.0%. The Series 2007 Bonds were issued for the purpose of paying the costs to renovate and construct a new addition to its University Center and for refunding the outstanding Series A and Series B Bonds.

(Continued)

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

NOTE 10 - LONG-TERM OBLIGATIONS (Continued)

Interest expense of approximately \$689,000 was capitalized during the construction period in 2010. The interest expense for fiscal year 2011 was \$788,791 and no interest expense for 2010.

Principal and interest amounts due within each of the next five years and thereafter on the Series 2007 bond obligations outstanding at June 30, 2011 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 535,000	\$ 783,200	\$ 1,318,200
2013	560,000	761,800	1,321,800
2014	575,000	739,400	1,314,400
2015	470,000	716,400	1,186,400
2016	490,000	697,600	1,187,600
2017 – 2021	2,745,000	3,174,500	5,919,500
2022 – 2026	3,470,000	2,452,250	5,922,250
2027 – 2031	4,430,000	1,494,000	5,924,000
2032 – 2034	<u>3,230,000</u>	<u>328,250</u>	<u>3,558,250</u>
Total	<u>\$ 16,505,000</u>	<u>\$ 11,147,400</u>	<u>\$ 27,652,400</u>

NOTE 11 - LEASES

The University's operating leases consist of real property and movable equipment. Total expenditures during 2011 and 2010 under operating leases amounted to approximately \$329,400 and \$4,500, respectively.

The operating leases expire in fiscal year 2013. Minimum lease payments of \$309,200 and \$48,500 will occur in fiscal years 2012 and 2013, respectively.

(Continued)

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

NOTE 12 - CAPITAL ASSETS

Capital Asset activity for the fiscal year ended June 30, 2011, was as follows:

	<u>Balance</u> <u>07/01/2010</u>	<u>Reclass</u> <u>and</u> <u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06/30/2011</u>
Capital assets, not being depreciated				
Land	\$ 7,934,297	\$ -	\$ -	\$ 7,934,297
Land improvements	6,928,632	-	-	6,928,632
Library books	4,593,108	62,409	(58,910)	4,596,607
Construction in progress	<u>18,295,376</u>	<u>13,167</u>	<u>(18,253,109)</u>	<u>55,434</u>
Total capital assets, not being depreciated	<u>37,751,413</u>	<u>75,576</u>	<u>(18,312,019)</u>	<u>19,514,970</u>
Capital assets being depreciated				
Buildings and improvements	74,480,223	21,747,193	-	96,227,416
Equipment	<u>11,499,007</u>	<u>1,028,972</u>	<u>(101,336)</u>	<u>12,426,643</u>
Total capital assets, being depreciated	<u>85,979,230</u>	<u>22,776,165</u>	<u>(101,336)</u>	<u>108,654,059</u>
Less accumulated depreciation				
Buildings and improvements	(27,767,829)	(2,139,862)	-	(29,907,691)
Equipment	<u>(7,890,890)</u>	<u>(958,988)</u>	<u>97,928</u>	<u>(8,751,950)</u>
Total accumulated depreciation	<u>(35,658,719)</u>	<u>(3,098,850)</u>	<u>97,928</u>	<u>(38,659,641)</u>
Total capital assets, being depreciated, net	<u>50,320,511</u>	<u>19,677,315</u>	<u>(3,408)</u>	<u>69,994,418</u>
Capital assets, net	<u>\$ 88,071,924</u>	<u>\$ 19,752,891</u>	<u>\$ (18,315,427)</u>	<u>\$ 89,509,388</u>

(Continued)

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

NOTE 12 - CAPITAL ASSETS (Continued)

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	<u>Balance</u> <u>07/01/2009</u>	<u>Reclass</u> <u>and</u> <u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06/30/2010</u>
Capital assets, not being depreciated				
Land	\$ 7,768,581	\$ 165,716	\$ -	\$ 7,934,297
Land improvements	6,928,632	-	-	6,928,632
Library books	4,538,611	63,905	(9,408)	4,593,108
Construction in progress	<u>13,783,264</u>	<u>7,181,922</u>	<u>(2,669,810)</u>	<u>18,295,376</u>
Total capital assets, not being depreciated	<u>33,019,088</u>	<u>7,411,543</u>	<u>(2,679,218)</u>	<u>37,751,413</u>
Capital assets being depreciated				
Buildings and improvements	71,745,601	2,734,622	-	74,480,223
Equipment	<u>10,032,038</u>	<u>1,574,636</u>	<u>(107,667)</u>	<u>11,499,007</u>
Total capital assets, being depreciated	<u>81,777,639</u>	<u>4,309,258</u>	<u>(107,667)</u>	<u>85,979,230</u>
Less accumulated depreciation				
Buildings and improvements	(26,103,729)	(1,664,100)	-	(27,767,829)
Equipment	<u>(7,049,204)</u>	<u>(939,791)</u>	<u>98,105</u>	<u>(7,890,890)</u>
Total accumulated depreciation	<u>(33,152,933)</u>	<u>(2,603,891)</u>	<u>98,105</u>	<u>(35,658,719)</u>
Total capital assets, being depreciated, net	<u>48,624,706</u>	<u>1,705,367</u>	<u>(9,562)</u>	<u>50,320,511</u>
Capital assets, net	<u>\$ 81,643,794</u>	<u>\$ 9,116,910</u>	<u>\$ (2,688,780)</u>	<u>\$ 88,071,924</u>

NOTE 13 - CONTINGENCIES

The University receives 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 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 statements of the University at June 30, 2011.

The University is not currently a party to any legal actions.

(Continued)

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

NOTE 14 - COMPONENT UNIT DISCLOSURE

The accompanying financial statements of the Foundation have been prepared in accordance with accounting principles generally accepted in the United States of America. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

Temporarily restricted net assets represent funds, which are restricted for a specific purpose determined by the donor. 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. Temporarily and permanently restricted net assets at June 30, 2011 and 2010 are restricted primarily for scholarships, University programs, and capital improvements.

Contributions, including unconditional promises to give, are recognized as revenues in the period the related commitments are received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received beyond the fiscal year are discounted at an appropriate discount rate.

Foundation investments are stated at fair value, with changes in fair value being recognized as gains and losses during the period in which they occur.

The fair value of investments at June 30, 2011 and 2010, by classification is as follows:

	<u>2011</u>	<u>2010</u>
U.S. Treasury & agency obligations	\$ 1,367,146	\$ 1,243,499
Bond mutual funds	1,534,549	1,202,227
Stock mutual funds	2,749,453	2,150,658
Common stocks	6,756,254	5,261,522
Corporate bond issues	<u>797,959</u>	<u>765,559</u>
	<u>\$ 13,205,361</u>	<u>\$ 10,623,465</u>

During the year ended June 30, 2011 and 2010 the Foundation made distributions of \$652,212 and \$738,024 to or on behalf of the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Shawnee State University Development Foundation, Inc. at 940 Second Street, Portsmouth, Ohio, 45662.

SUPPLEMENTARY INFORMATION

SHAWNEE STATE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2011

Federal Grantor/ Pass-Through Grantor/ <u>Program Title</u>	Federal CFDA <u>Number</u>	Pass through Entity identifying <u>Number</u>	<u>Expenditures</u>
<u>U.S. Department of Education</u>			
Student Financial Assistance Cluster:			
Federal Supplemental Educational Opportunity Grants	84.007		\$ 115,404
Federal Work-Study Program	84.033		165,508
Academic Competitiveness Grants	84.375		323,534
Science and Mathematics Access to Retain Talent (SMART) Grants	84.376		161,715
Federal Pell Grant Program	84.063		11,961,989
Federal Direct Loan Program	84.268		28,314,889
Teacher Education Assistance for College & Higher Education Grants (TEACH)	84.379		<u>274,373</u>
Total Student Financial Aid Cluster			<u>41,317,412</u>
TRIO Cluster:			
Student Support Services	84.042		310,041
Talent Search	84.044		279,769
Upward Bound	84.047		303,776
Educational Opportunity Centers	84.066		383,295
Upward Bound Math Science	84.047		<u>267,760</u>
Total TRIO Cluster			<u>1,544,641</u>
<i>Passed through Ohio Department of Education</i>			
Adult Education: Basic Grants to States	84.002	AB-S1	100,464
Twenty-first Century – After School Malls	84.287		875,542
Tech Prep Education	84.243	3E-OO	114,230
Career and Technical Education – Basic Grants to States	84.048		2,798
Tech Prep College Alumni	84.243		<u>2,327</u>
Total Department of Education			<u>1,095,361</u>
<i>Passed through Ohio Board of Regents</i>			
ARRA - State Fiscal Stabilization Fund – Education State Grants, Recovery Act	84.394		1,880,750
Government Services, Recovery Act	84.397		<u>277,460</u>
Total Ohio Board of Regents			<u>2,158,210</u>
Total U.S. Department of Education			<u>46,115,624</u>
<u>Small Business Administration</u>			
Research and Development Immersive Technology	59.UNK		<u>86,241</u>

See accompanying notes to the Schedule of Federal Awards.

SHAWNEE STATE UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2011

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass through Entity identifying Number</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture</u>			
<i>Passed through Ohio Department of Education</i> Child and Adult Care Food Program	10.551	16-CU, 21-CU, 21- FU	<u>9,546</u>
<u>National Science Foundation</u>			
NOYCE Scholarship	47.049		<u>25,000</u>
<u>U.S Department of Veterans Affairs</u>			
Disabled Veterans Scholarship	64.UNK		101,295
Post-9/11 Veterans Educational Assistance	64.028		<u>221,564</u>
Total U.S. Department of Veterans Affairs			<u>322,859</u>
Total Federal Expenditures			<u>\$ 46,559,270</u>

See accompanying notes to the Schedule of Federal Awards.

SHAWNEE STATE UNIVERSITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2011

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 Shawnee State 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.

Sub-recipients: Certain funds are passed through to sub-grantee organizations by the University. Expenditures incurred by the sub-grantees and reimbursed by the University are presented in the Schedule. The University is also the sub-recipient of federal funds which have been subject to testing and are reported as expenditures "passed through" from other entities.

NOTE 2 - FEDERAL WORK-STUDY AND FEDERAL SEOG WAIVER

For fiscal year 2011, the University received a waiver from the Department of Education for the Institutional Share Requirement under the Federal Work-Study and Federal Supplemental Educational Opportunity Grant programs.

NOTE 3 - FEDERAL DIRECT LOAN PROGRAM

The University participates in the William D. Ford Federal Direct Loan Program. The University originates the loans which are then funded through the U.S. Department of Education.

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
Portsmouth, Ohio

We have audited the financial statements of the business-type activities and discretely presented component unit of Shawnee State University as of and for the year ended June 30, 2011, which collectively comprise Shawnee State University's basic financial statements 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 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Shawnee State University'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 Shawnee State University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Shawnee State University'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.

(Continued)

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Finance and Facilities Committee, the Board of Trustees, the Ohio Auditor of State, 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.

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

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustees
Shawnee State University
Portsmouth, Ohio

Compliance

We have audited Shawnee State University's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Shawnee State University's major federal programs for the year ended June 30, 2011. 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 programs 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2011-01 through 2011-03.

(Continued)

Internal Control Over Compliance

Management of Shawnee State University is responsible for establishing and maintaining effective internal control over compliance with the 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 the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Shawnee State University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2011-01 through 2011-03. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Shawnee State University's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Shawnee State University's responses and, accordingly, we express no opinion on the responses.

This report is intended for the information of management, the Finance and Facilities Committee, the Board of Trustees, the Ohio Auditor of State, 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.



Crowe Horwath, LLP

Columbus, Ohio
October 14, 2011

SHAWNEE STATE UNIVERSITY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 June 30, 2011

PART I: SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	Yes	<u> X </u>	No
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Significant deficiencies identified not considered to be material weaknesses?	Yes	<u> X </u>	N/A
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Noncompliance material to financial statements noted?	Yes	<u> X </u>	No
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Federal Awards

Internal control over major programs:

Material weakness(es) identified?	Yes	<u> X </u>	No
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Significant deficiencies identified not considered to be material weakness(es)?	<u> X </u>	Yes	N/A
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Type of auditors' report issued on compliance for major programs

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (Section .510(a))?	<u> X </u>	Yes	No
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(Continued)

SHAWNEE STATE UNIVERSITY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 June 30, 2011

PART I: SUMMARY OF AUDITORS' RESULTS (Continued)

<u>Name of Major Programs Identified</u>	<u>CFDA Number(s)</u>
Student Financial Aid Cluster:	
Federal Pell Grant Program	84.063
Federal Work-Study Program	84.033
Federal Supplemental Educational Opportunity Grant	84.007
Federal Direct Loan Program	84.268
Academic Competitiveness Grant	84.375
National Science and Mathematics Access Retain Talent Grant to Retain Talent Grant (SMART)	84.376
Teacher Education Assistance for College & Higher Education Grants (TEACH)	84.379
Education State Grants Recovery Act (ARRA)	84.394
Government Services, Recovery Act (ARRA)	84.397
Dollar threshold used to distinguish between Type A and Type B programs	\$ <u>300,000</u>
Auditee qualified as low-risk auditee?	<u> X </u> Yes <u> </u> No

PART II: FINANCIAL STATEMENT FINDINGS SECTION

There were no findings.

PART III: FEDERAL AWARD AUDIT FINDINGS AND QUESTIONED COSTS SECTION

Finding 2011-01

Federal Program Information: Pell Grant Program, CFDA #84.063

Criteria: 34 CFR 690.62 Calculation of a Federal Pell Grant. (a) The amount of a student's Pell Grant for an academic year is based upon the payment and disbursement schedules published by the Secretary for each award year.

Condition: In our sample of 25 students, we noted three students were not awarded Pell according to the criteria above. Two students were under-awarded a total of \$1,888 and one student was over-awarded a total of \$50. Management performed a full file exam and noted a total of 55 exceptions, which have since been corrected.

Questioned costs: The full file review, including the items in the sample, resulted in a total of 16 over-awards totaling \$6,909 and 39 under-awards totaling \$10,925.

(Continued)

SHAWNEE STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2011

PART III: FEDERAL AWARD AUDIT FINDINGS AND QUESTIONED COSTS SECTION

Finding 2011-01 (Continued)

Cause: Under-awards were largely due to the use of a 12 month EFC rather than a 9 month EFC reflective of actual student enrollment. Other causes include changes in student status that were not communicated to the Financial Aid office and award miscalculations. In addition, turnover occurred in the Financial Aid department and staff assigned to the awarding of Pell and Direct Loans were new to the awarding process.

Effect: Pell Grants were not awarded based upon the payment and disbursement schedules published by the Secretary and resulted in over and under-awards.

Recommendation: We recommend implementing training procedures and establishing monitoring procedures governing the packaging process to ensure Pell Grants are awarded and disbursed in accordance with the schedules published by the Secretary and according to students' accurate Expected Family Contributions (EFC) and cost of attendance.

Management Response and Corrective Action: Management concurs with this finding. Shawnee State University has conducted a full file review of 2011 Pell awards and made the necessary adjustments to the student accounts identified as being either over-awarded (\$6,909) or under-awarded (\$10,925). All identified over-awards have already been returned to the funding agency.

As noted in the "Cause" section of the finding, the Financial Aid Office has experienced a high turnover rate during the past fiscal year. The staff assigned to the Pell area was new to the awarding process. Additional training for staff will be provided and management has increased the number of Pell awards that will be reviewed. In addition, a new computer application has been installed ("Auto Recalculation") in the Jenzabar Financial Aid module that will automate and provide more edit checks of the awarding of aid. We believe these additions, along with the additional experience of the Financial Aid staff, will result in the accurate awarding of Pell funds.

(Continued)

SHAWNEE STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2011

PART III: FEDERAL AWARD AUDIT FINDINGS AND QUESTIONED COSTS SECTION (Continued)

Finding 2011-02

Federal Program Information: Federal Direct Loan Program, CFDA #84.268

Criteria: 34 CFR 685.203 Loan limits

Condition: We noted one student in our sample of 25 was over-awarded a Federal Direct Loan in the amount of \$204. Management performed a full file review and noted an additional 28 over-awards as well as 16 required reallocations from subsidized loans to unsubsidized loans. One allocation from unsubsidized to subsidized was also identified. These exceptions have since been corrected.

Questioned costs: Questioned costs for the 29 over-awards totaled \$29,971. The amount of subsidized loans reallocated to unsubsidized loans totaled \$21,213 for the 16 exceptions. The amount of the unsubsidized loan reallocated to a subsidized loan was \$1,000.

Cause: The exceptions were caused by the following: outside aid being awarded after the loan was processed, but before it was disbursed; loans originated twice; and miscalculation of the proper loan amount. As noted above, turnover occurred in the Financial Aid department and staff assigned to the awarding of Pell and Direct Loans were new to the awarding process.

Effect: Direct Loans were not awarded in accordance with guidelines in the Code of Federal Regulations.

Recommendation: We recommend implementing training procedures and establishing monitoring procedures governing the packaging process to ensure Direct Loans are awarded and disbursed in accordance with federal guidelines.

Management Response and Corrective Action: Management concurs with this finding. Shawnee State University has conducted a full file review of 2011 Federal Direct Loans and made the necessary adjustments to the student accounts identified as either being over-awarded or requiring reallocation. All identified over-awards have been returned to the appropriate funding agency and reallocations have been processed

The Financial Aid Office has experienced a high turnover rate during the past fiscal year. The staff assigned to the Direct Loan area was new to the awarding process. Additional training for staff will be provided and management has increased the number of Direct Loans that will be reviewed. Management will consult with the University's IT department to create reports that can assist with identifying/preventing over-awards. We believe these additions, along with the additional experience of the Financial Aid staff, will result in the accurate awarding and processing of Federal Direct Loans.

(Continued)

SHAWNEE STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2011

PART III: FEDERAL AWARD AUDIT FINDINGS AND QUESTIONED COSTS SECTION (Continued)

Finding 2011-03

Federal Program Information: Student Support Service, CFDA #84.042

Criteria: 34 CFR 646.30; Allowable costs

Condition: A new Student Support Services Contract began September 1, 2010. The new contract reduced the amount of wages and benefits allocable to the program for the secretarial position from 100% to 62.5%. This change was not implemented and \$28,336.25 in unallowable wages, benefits and related indirect costs were charged to the grant.

Questioned costs: \$28,336.25

Cause: The change in contract terms was not identified and implemented upon the beginning of the new grant term.

Effect: Unallowable costs were charged to the program.

Recommendation: We recommend procedures be implemented to ensure new grant terms and changes in grant terms are implemented according to the federal program requirements in a timely manner.

Management Response and Corrective Action: Management concurs with this finding. During the prior award year, the secretarial position was grant funded at 100%. When the new contract began, the new 62.5% rate was not implemented and the secretary's efforts, salary, and benefits were devoted and expensed at 100% to the grant. The excess expense was self-reported to the Department of Education and the disallowed portion previously drawn down has been refunded to the DOE. Management will strengthen its grant oversight process to ensure that all future grant changes are implemented and expenditures comply with the grant budget.

PART IV: SUMMARY OF PRIOR YEAR FINDINGS

FINDING 10-01

Criteria: 2 CFR 215.13: Debarment and suspension.

Federal awarding agencies and recipients shall comply with Federal agency regulations implementing E.O.s 12549 and 12689, "Debarment and Suspension." Under those regulations, certain parties who are debarred, suspended or otherwise excluded may not be participants or principals in Federal assistance awards and subawards, and in certain contracts under those awards and subawards.

Condition: The University did not check the Excluded Party Listing System (EPLS) prior to entering into a contract with a vendor using these federal funds.

Status: There were no vendor contracts purchased with federal funds in fiscal year 2010-2011.



Dave Yost • Auditor of State

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
DECEMBER 8, 2011