

Shawnee State University
(a component unit of the State of Ohio)

Financial Report
with Supplementary Information
June 30, 2016



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Shawnee State University, Scioto County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2015 through June 30, 2016. 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 black ink that reads "Dave Yost".

Dave Yost
Auditor of State

September 20, 2016

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Shawnee State University

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Independent Auditor's Report

To the Board of Directors
Shawnee State University

Report on the Financial Statements

We have audited the accompanying basic financial statements of Shawnee State University (the "University") and its discretely presented component unit as of and for the years ended June 30, 2016 and 2015 and the related notes to the financial statements, which collectively comprise the University's financial statements as listed in the table of contents. These financial statements are reported as a component unit of the State of Ohio.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Directors
Shawnee State University

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the net position of Shawnee State University and its discretely presented component unit as of June 30, 2016 and 2015 and the changes in its net position and, where applicable, its cash flows thereof, for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended June 30, 2016, the University adopted the provisions of Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the University's proportionate share of the net pension liability, and the schedule of university contributions, as indicated in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Shawnee State University's basic financial statements. The schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"), and is not a required part of the basic financial statements.

To the Board of Directors
Shawnee State University

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2016 on our consideration of Shawnee State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Shawnee State University's internal control over financial reporting and compliance.

Plante & Moran, PLLC

September 12, 2016

Shawnee State University

Management's Discussion and Analysis (Unaudited)

This unaudited 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, 2016. 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 statements of net position, revenue, expenses, and changes in net position, and cash flows. These statements have been prepared in accordance with the 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. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity - Omnibus*, the Shawnee State University Development Foundation's (the "Foundation") financial statements have been included in this annual report. This information has been provided on separate financial statements and in a note to the financial statements. Shawnee State University's management's discussion and analysis reflects only information related to the University.

During fiscal year 2016, the University implemented GASB Statement No. 72, *Fair Value Measurement and Application*. Please see adoption of new accounting pronouncements in Note 2 to the financial statements for further details.

Financial Highlights

Key financial highlights for 2016 are as follows:

- Total net position decreased \$4,144,921. The decrease was the result of a \$922,851 reduction in nonoperating grant funding, a \$740,303 decline in student tuition and fee revenue, and an increase of \$595,314 in operating expenditures.
- Total assets decreased \$5,903,044. Current assets decreased \$1,151,807 and noncurrent assets (excluding capital assets) decreased \$1,989,328 as the result of the reduction in investments held by the University.
- The \$5,273,275 increase in total liabilities was primarily due to the \$6,949,434 adjustment to the net pension liability related to GASB Statement No. 68.

Shawnee State University

Management's Discussion and Analysis (Unaudited) (Continued)

- Total revenue decreased \$1,957,862 from 2015 to 2016 compared with a decrease of \$5,058,630 from 2014 to 2015.
- Total expenses increased \$531,414 as compared with a decrease of \$697,279 from 2014 to 2015.
- Operating expenses increased \$595,314 primarily as a result of increased scholarship, auxiliary enterprise, and institutional expenses.
- Operating revenue decreased by \$1,160,454 due to reduced student tuition and fees revenue.
- Nonoperating revenue decreased \$1,005,074 mainly as a result of a \$776,209 decrease in nonoperating grant revenue and \$274,563 in decreased investment income. Nonoperating expenses increased \$63,900 as a result of an increase in interest expense on capital asset related debt and losses on the disposal of capital assets in 2016.

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 the statements of net position, revenue, expenses, and changes in net position, and cash flows. The basic financial statements for the Shawnee State University Development Foundation include the statement of net assets and the statement of activities.

Statement of Net Position and Statement of Revenue, Expenses, and Changes in Net Position

The statement of net position and statement of revenue, expenses, and changes in net position present information about the University and its activities in a way that helps answer the question, "How did Shawnee State University do financially during 2016?" The statement of net position includes all short-term and long-term assets and liabilities, both financial and capital and deferred outflows or inflows of resources. 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 position 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.

Shawnee State University

Management's Discussion and Analysis (Unaudited) (Continued)

Statement of Net Position

The statement of net position, 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 and deferred outflows minus total liabilities and deferred inflows equal net position. The University's assets, deferred outflows, liabilities, deferred inflows, and net position as of June 30, 2016, 2015, and 2014 are presented below:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Assets			
Current assets	\$ 7,252,468	\$ 8,404,275	\$ 9,391,226
Capital assets - Net	79,857,130	82,619,039	84,460,480
Other noncurrent assets	<u>18,263,093</u>	<u>20,252,421</u>	<u>19,712,229</u>
Total assets	105,372,691	111,275,735	113,563,935
Deferred Outflows of Resources	8,104,734	3,188,029	-
Liabilities			
Current liabilities	7,074,526	7,426,422	6,962,696
Non-current liabilities	<u>61,278,613</u>	<u>55,653,442</u>	<u>18,082,525</u>
Total liabilities	68,353,139	63,079,864	25,045,221
Deferred Inflows of Resources	<u>3,720,762</u>	<u>5,835,455</u>	<u>714,286</u>
Net Position			
Net investment in capital assets	65,400,451	67,314,273	68,650,729
Restricted, expendable	196,489	192,469	224,890
Unrestricted	<u>(24,193,416)</u>	<u>(21,958,297)</u>	<u>18,928,809</u>
Total net position	<u>\$ 41,403,524</u>	<u>\$ 45,548,445</u>	<u>\$ 87,804,428</u>

Shawnee State University

Management's Discussion and Analysis (Unaudited) (Continued)

Total assets of the University decreased \$5,903,044 in 2016 and \$2,288,200 in 2015. Current assets decreased \$1,151,807 in 2016 and \$986,951 in 2015. The decrease in current assets in 2016 and 2015 is predominantly attributable to a decrease in cash and short-term investments due to reduced government funding and tuition received during the year. Noncurrent assets (excluding capital assets) decreased \$1,989,328 in 2016 as compared to an increase of \$540,192 in 2015 due to the decreased market value of University investments and the liquidation of investment holdings to supplement the University's cash needs during the fiscal year.

Net capital assets decreased \$2,761,909 in 2016 and \$1,841,441 in 2015 due to depreciation expense and the loss on disposals of capital assets exceeding the cost of construction projects completed during the respective years.

The \$5,273,275 increase in total liabilities (\$5,625,171 increase in noncurrent liabilities partially offset by a \$351,896 decrease in current liabilities) is primarily due to an increase of \$6,949,434 to recognize the University's proportionate share of the net pension liability as determined by the two pension plans associated with the University, the State Teachers Retirement System, and Ohio Public Employees Retirement System, as required by GASB Statement No. 68. See Note 2 and Note 13 to the financial statements for further details.

Shawnee State University

Management's Discussion and Analysis (Unaudited) (Continued)

Statement of Revenue, Expenses, and Changes in Net Position

The statement of revenue, expenses, and changes in net position presents the results of operations for the University. The change in net position during the fiscal year is a measurement of the change in the overall financial condition of the University. The University's revenue, expenses, and changes in net position for the fiscal years ended June 30, 2016, 2015, and 2014 are as follows:

	2016	2015	2014
Operating revenue:			
Tuition, fees, and other student charges	\$ 22,579,836	\$ 23,320,139	\$ 24,209,355
Grants and contracts	3,275,653	3,586,107	3,628,307
Sales and services	1,815,460	1,846,922	1,742,795
Miscellaneous income	302,857	381,092	504,187
Nonoperating revenue:			
Investment income	68,162	342,725	2,128,812
State appropriations	16,303,575	16,257,877	15,916,302
Other grants	13,243,601	14,019,810	14,857,995
Capital appropriations	421,302	213,636	2,039,185
Total revenue	58,010,446	59,968,308	65,026,938
Operating expenses:			
Instruction and research	19,551,682	19,794,586	20,100,199
Public service	2,289,885	2,244,944	2,398,875
Academic support	3,271,911	3,210,578	3,016,301
Student services	3,751,461	3,833,267	3,727,822
Institutional support	10,372,024	10,147,354	10,212,939
Operation and maintenance of plant	5,488,162	5,581,883	5,272,526
Scholarships and fellowships	6,775,895	6,426,737	6,834,336
Depreciation	3,527,238	3,510,953	3,576,210
Auxiliary enterprises	6,426,472	6,109,114	6,427,094
Nonoperating expense:			
Interest on capital debt	695,915	757,869	753,039
Loss on disposal of capital assets	4,722	6,668	1,891
Total expenses	62,155,367	61,623,953	62,321,232
(Decrease) increase in net position	<u>\$ (4,144,921)</u>	<u>\$ (1,655,645)</u>	<u>\$ 2,705,706</u>

Shawnee State University

Management's Discussion and Analysis (Unaudited) (Continued)

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, there was no change in rates charged for undergraduate in-state tuition and fees during 2016. Rates charged for undergraduate out-of-state students and all graduate students increased 2.73 percent effective in the fall 2015 semester.

The University's 2016 revenue from student tuition and fees has decreased to \$22,579,836 from \$23,320,139 in 2015 and \$24,209,355 in 2014 due to decreases in enrollment over these years. Tuition and fees represent 38.9 percent of the University's total revenue in 2016 as well as 2015, and 37.2 percent in 2014. The 9.5 percent decrease in operating grants and contracts revenue from \$3,586,107 in 2015 to \$3,275,653 in 2016 is attributable to the reduced funding the University received from scholarship grants as a result of lower enrollment levels in 2016.

The combination of institution-wide spending-constraint strategies implemented in prior years while still providing funding for projects related to the University's strategic plan initiatives resulted in a small 1 percent increase in total operating expenses in 2016 when compared to 2015 spending levels. The 1 percent increase in total operating expenses is mainly a result of a \$317,358 increase in auxiliary enterprises expenses and a \$224,670 increase in institutional support expenses in 2016. In both instances, the increase in expenses is a result of new strategic plan initiatives such as enrollment management programs or new software applications implemented to increase operational efficiency. Scholarships and fellowships expenses increased from \$6,426,737 in 2015 to \$6,775,895 in 2016 primarily due to a change in the state College Credit Plus scholarship program that resulted in the program expenses being recorded in the current year instead of being recorded on a one-year lag under the prior Postsecondary Education Opportunity scholarship program. This change resulted in a combined expense being recorded in 2016. Operation and maintenance of plant experienced a decrease of 1.7 percent from \$5,581,883 to \$5,488,162 due to less University-funded building projects in 2016 than in 2015.

State appropriations represent 28.1 percent of the University's total revenue in 2016, 27.1 percent in 2015, and 24.5 percent in 2014. 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 2016, investment income amounted to \$68,162 as compared to \$342,725 during 2015 and \$2,128,812 during 2014. The level of decrease in investment markets in general is mirrored in the University's decrease in investment income. During the last quarter of fiscal year 2016, the University had initiated a review for a new investment consultant as well as new investment managers to improve the University's long-term investment performance.

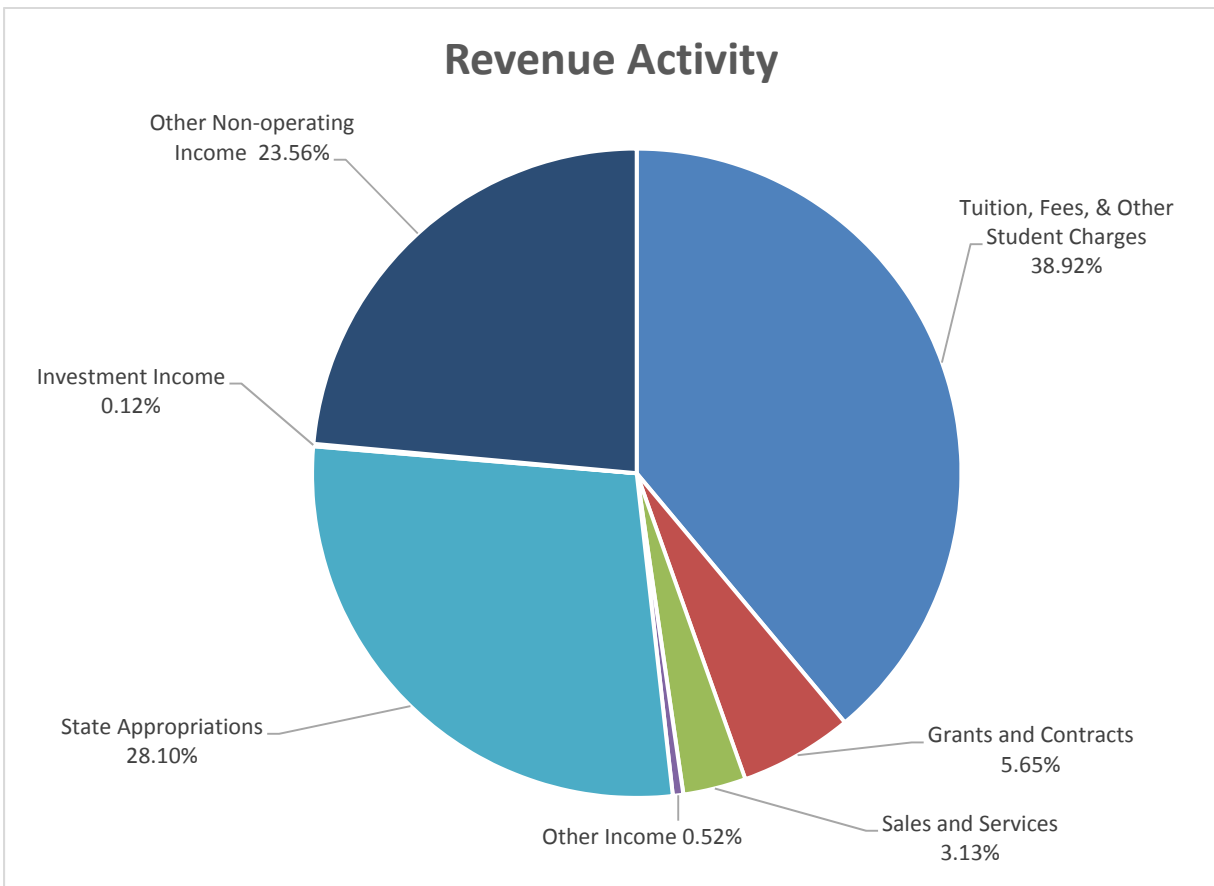
Shawnee State University

Management's Discussion and Analysis (Unaudited) (Continued)

Pell Grants and certain other grants are considered non-exchange transactions and therefore are reflected as nonoperating revenue. The federal grants portion of nonoperating other grants revenue experienced a 5.9 percent decrease. The decrease in 2016 follows a similar decrease in 2014 of 5.9 percent in the federal grant portion of nonoperating other grants revenue. Income from federal aid programs such as Pell, SEOG, and Veteran's Benefits amounted to \$8.7 million in 2016 as compared with \$9.6 million in 2015 and \$10.9 million in 2014. Nonoperating grants revenue represents 22.8 percent of the University's total revenue in 2016, 23.4 percent in 2015, and 22.8 percent in 2014.

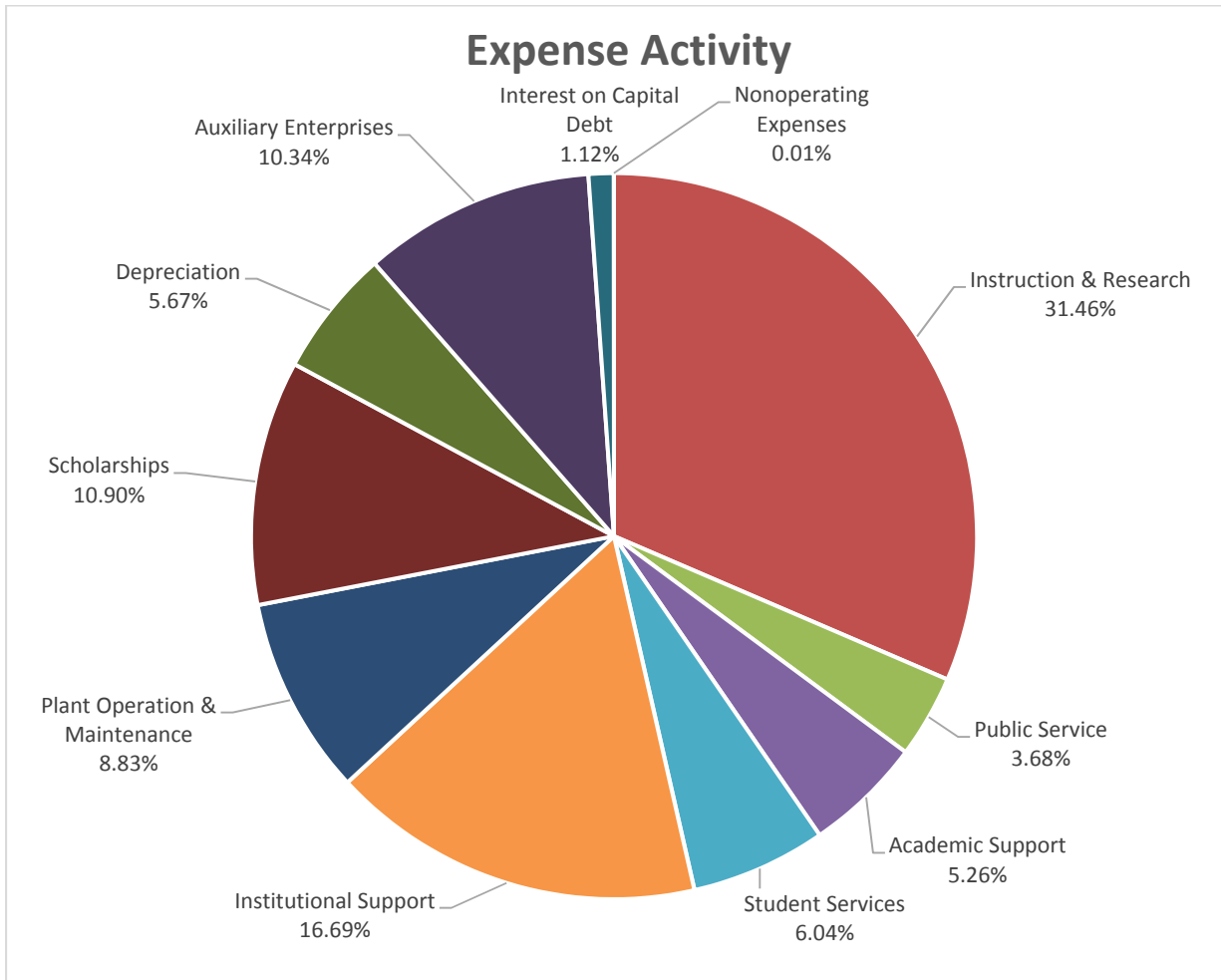
Capital appropriations increased to \$421,302 in 2016 from \$213,636 in 2015 and decreased from \$2,039,185 in 2014. The increases in 2016 and 2014 reflect the increased state capital funding received to support the startup costs of various capital projects during those years. These projects included the upgrade to the Fine Arts building and the STEMM building project. The decrease in 2015 reflects the reduced state capital funding received as projects that were started in previous years neared their completion and required less state funding and no new major state-funded capital projects were initiated in 2015.

The following graphs summarize Shawnee State University's revenue and expense activity for the fiscal year ended June 30, 2016.



Shawnee State University

Management's Discussion and Analysis (Unaudited) (Continued)



Shawnee State University

Management's Discussion and Analysis (Unaudited) (Continued)

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 ended June 30, 2016. A comparison of cash sources and uses during fiscal years 2016, 2015, and 2014 is presented below:

	2016	2015	2014
<u>Cash (used in) provided by:</u>			
Operating activities	\$ (30,518,913)	\$ (27,792,718)	\$ (28,245,760)
Noncapital financing activities	30,461,795	29,624,892	30,699,284
Capital and related financing activities	(1,935,434)	(2,727,227)	(3,628,995)
Investment activities	<u>2,180,349</u>	<u>218,317</u>	<u>1,288,568</u>
Net increase (decrease) in cash and cash equivalents	187,797	(676,736)	113,097
Cash and cash equivalents -			
Beginning of year	<u>894,069</u>	<u>1,570,805</u>	<u>1,457,708</u>
End of year	<u>\$ 1,081,866</u>	<u>\$ 894,069</u>	<u>\$ 1,570,805</u>

Cash and cash equivalents increased by \$187,797 from 2015 to 2016, compared to a decrease of \$676,736 from 2014 to 2015 mainly due to the liquidation of investments during 2016 by the University.

Capital Assets and Debt Administration

At the end of fiscal year 2016, the University had \$79,857,130 in net capital assets. This reflects an overall decrease of \$2,761,909 in net capital assets from 2015. The reduction was a result of the 2016 depreciation expense being larger than the cost of new capital assets acquired in 2016.

Capital assets - Net of depreciation at June 30:

	2016	2015	2014
Land	\$ 8,003,370	\$ 8,003,370	\$ 8,003,370
Land improvements	6,928,632	6,928,632	6,928,632
Buildings and improvements	62,451,322	58,907,751	61,429,944
Equipment	1,763,004	2,177,996	2,653,813
Library books	309,007	320,416	308,218
Construction in progress	<u>401,795</u>	<u>6,280,874</u>	<u>5,136,503</u>
Totals	<u>\$ 79,857,130</u>	<u>\$ 82,619,039</u>	<u>\$ 84,460,480</u>

Shawnee State University

Management's Discussion and Analysis (Unaudited) (Continued)

Debt Administration

At June 30, 2016, the University had outstanding general revenue bonds payable totaling \$13,875,000, \$500,000 of which is due within one year. This reflects an overall decrease of \$490,000 in the general revenue bonds payable liability from 2015. 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.

In fiscal year 2013, the University executed a new capital lease with Key Government Finance, Inc. The original lease proceeds of \$2,820,339 are funding a portion of the University's IT infrastructure upgrade project. In 2015, the University received an additional \$227,407 in funding and revised the original lease's payment schedule to reduce annual payment amounts by extending the lease through October 1, 2018. As of June 30, 2016, the remaining balance of the capital lease was \$935,234, \$301,976 of which is due within one year.

Outstanding debt at year end:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Capital lease payable - 3.16%	\$ 935,234	\$ 1,237,553	\$ 1,285,070
General revenue bonds payable - 4.0% to 5.0% - Series 2007	<u>13,875,000</u>	<u>14,365,000</u>	<u>14,835,000</u>
Total debt	<u>\$ 14,810,234</u>	<u>\$ 15,602,553</u>	<u>\$ 16,120,070</u>

Current Financial Issues and Concerns

As detailed in the previous sections of the management's discussion and analysis (MD&A), the University's fiscal year 2016 net position experienced a substantial loss. The primary challenge was the academic year 2015/2016 enrollment decline compounded by such factors as the timing of a multi-year College Credit Plus scholarship expense adjustment, the planned renovation of one of four student residential buildings, and the fiscal year 2016 pension liability adjustment required by GASB Statement No. 68. While the tuition revenue loss was somewhat offset by reductions in instructional expense since fewer course sections were required, fewer costs associated with student services, and a slight increase in state revenue, these offsets are not sufficient to negate the tuition revenue impact.

Not adequately captured solely by this year's financial performance are the concrete actions and strategic initiatives undertaken during fiscal year 2016 that are positioning Shawnee State for a real and positive transformation. With the board of trustees' completion of a national search and employment, beginning July 1, 2015, of Shawnee's sixth president, the influence of this new leader upon the institution cannot be overstated.

Shawnee State University

Management's Discussion and Analysis (Unaudited) (Continued)

First, during fiscal year 2016, a major undertaking was the employment of three of the four division vice president positions that were vacated due to retirements or acceptance of promotional opportunities out of the state. These included the provost and vice president for academic affairs, the vice president for advancement and external affairs (a newly configured division), and the vice president for enrollment management and student affairs. This current leadership team formed a partnership with the president that is driving cultural and operational changes required for growth.

Second, in response to the desires of the board of trustees, the president rapidly deployed a comprehensive organizational assessment and strategic planning that occurred throughout fiscal year 2016. The impact of the strategic planning effort upon the community has been dynamic and positive. The participation of over 300 community and campus leaders produced four major forward-thinking themes upon which the campus will focus (i.e., competitive advantage of academic programs, strengthening of admission practices, enhancing life quality for students and community, and customer-focused and outcome-driven business process). Among the many positive outcomes, this effort produced a clear mission statement and, importantly, the articulation of a viable and achievable vision. The value in coalescing these multiple stakeholders is being realized in concrete ways - all leading to a reinvigorated community. The University's strategic plan was approved by the board of trustees at its August 2016 meeting. The resulting divisional and unit planning processes currently underway are dedicated to achieving organizational and operational changes deep within the institution.

Third, while the University has been engaged in austerity measures for the past four years, we have been unable to keep pace with the degree and sustained nature of the revenue loss. The president is tackling this condition with a twofold approach: 1) heightening the austerity measures to include, beginning with the fiscal year 2017 budget, a three-year path to reducing recurring General Fund expenditures to achieve a balanced general operating budget; and, 2) with the active engagement of targeted action teams, the identification of key investment areas critical for operational efficiencies, improved services, and financial return. The first year of the three-year budgetary goal was achieved with:

- Extensive departmental-level examination and right-sizing of non-compensation spending
- Deeper reductions of administrative positions
- Organizational realignments that cover broader functionalities with fewer staff
- Increased emphasis upon academic program reviews
- Replacement of the institution's outdated legacy software systems
- Investment in change management techniques to gain efficiencies in business processes as well as reduced energy consumption that will produce measurable outcomes
- Explicit expectations for marked improvement in the delivery of direct services to our students

Shawnee State University

Management's Discussion and Analysis (Unaudited) (Continued)

Embedded in his financial strategy is carefully planned use of debt. To that end, we have engaged professional financial advisors to assist with the refunding of 2007 general receipts bonds and anticipate utilizing the projected savings to acquire an additional \$7 million of debt. This new funding enables the University to make sorely needed upgrades to health and recreation facilities and to redirect General Fund dollars to operating needs instead of the source for University-owned housing renovations. Further, the improvements to these auxiliary buildings support and enhance the University's newly framed recruitment strategies.

Fourth, the above initiatives are conjoined with the implementation of a turn-around plan for improved student enrollment and retention. Even before this plan is fully implemented, we are realizing positive indicators with evidence of improved retention beginning academic year 2016/2017. These preliminary efforts have been supported by the Shawnee State University Development Foundation (SSUDF) and the Ohio Department of Higher Education (ODHE) through the awarding of grants to defray start-up costs. The turn-around plan incorporates an integrated marketing and communications strategy, updates an outdated admission process, and installs a multi-phase approach to maximize student advising opportunities and career planning support.

Lastly, while the University's community has been reinvigorated and is demonstrating the collective desire to engage in the new strategies, the president and his leadership team know that true change will come incrementally and only with sustained energy, thoughtful planning, and creative approaches to solve problems by all sectors within the institution. What Shawnee State University has experienced with its lagging enrollment the past few years is not uncommon to many higher education institutions throughout the nation. What is different is the renewed dedication and sincere commitment by the leaders, key stakeholders, and the broader community to make the difficult changes required for continued success. To that end, the next steps include continuation of a robust strategic planning process that produces measurable outcomes deep within the organization, achieving a balanced general operating budget that enables strategic investments essential for growth, realizing sustained, multi-year improvements in enrollment and retention, and rebuilding a strong alumni and donor network that includes a robust relationship with external stakeholders.

Shawnee State University

Statement of Net Position University

	June 30	
	2016	2015
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	\$ 1,081,866	\$ 894,069
Short-term investments	14	122,719
Total cash and short-term investments	1,081,880	1,016,788
Receivables:		
Accounts (net of allowance for doubtful accounts of \$2,942,397 in 2016 and \$2,880,748 in 2015)	5,635,905	7,002,973
Notes	83,672	85,547
Amounts due from primary government	93,207	26,140
Interest receivable	37,103	37,257
Inventory	40,424	42,388
Prepaid items	280,277	193,182
Total current assets	7,252,468	8,404,275
Noncurrent Assets		
Investments	18,263,093	20,252,421
Capital assets - Net	79,857,130	82,619,039
Total noncurrent assets	98,120,223	102,871,460
Total assets	105,372,691	111,275,735
Deferred Outflows of Resources		
Pension costs	8,104,734	3,188,029
Total Assets and Deferred Outflows of Resources	<u>\$ 113,477,425</u>	<u>\$ 114,463,764</u>

Shawnee State University

Statement of Net Position (Continued) University

	June 30	
	2016	2015
Liabilities, Deferred Inflows of Resources, and Net Position		
Current Liabilities		
Accounts payable	\$ 992,148	\$ 845,542
Accrued wages and benefits	3,633,939	4,008,929
Compensated absences payable	192,456	243,984
Capital lease payable	301,976	302,319
Bonds payable	500,000	490,000
Accrued interest payable	78,952	80,328
Unearned revenue	1,241,843	1,372,092
Deposits held by and due to others	133,212	83,228
Total current liabilities	7,074,526	7,426,422
Noncurrent Liabilities		
Compensated absences payable	1,732,106	2,195,853
Unearned revenue	593,061	651,601
Net pension liability	44,945,188	37,995,754
Capital lease payable	633,258	935,234
Bonds payable	13,375,000	13,875,000
Total noncurrent liabilities	61,278,613	55,653,442
Total liabilities	68,353,139	63,079,864
Deferred Inflows of Resources		
Service concession agreements	360,000	537,143
Pension costs	3,360,762	5,298,312
Total deferred inflows of resources	3,720,762	5,835,455
Net Position		
Net investment in capital assets	65,400,451	67,314,273
Restricted:		
Expendable		
Loans	112,896	112,891
Other	83,593	79,578
Unrestricted	(24,193,416)	(21,958,297)
Total net position	41,403,524	45,548,445
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 113,477,425</u>	<u>\$ 114,463,764</u>

Shawnee State University

Statement of Net Assets Development Foundation

	June 30	
	2016	2015
Assets		
Cash and cash equivalents	\$ 421,867	\$ 236,209
Investments	17,602,784	18,256,891
Contributions receivable - Net	268,123	715,495
Lease receivable from related party	28,514	43,463
Beneficial interest in trusts held by others	952,875	1,016,169
Cash surrender value of life insurance	227,667	229,522
Other assets	85,700	95,560
Net property and equipment	<u>11,206,083</u>	<u>11,250,522</u>
Total assets	<u>\$ 30,793,613</u>	<u>\$ 31,843,831</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 27,354	\$ 16,677
Accrued real estate tax	71,875	67,974
Deferred revenue	11,521	11,552
Deposits held and due to others	160,321	69,233
Annuity payment liability	245,529	251,176
Note payable	<u>4,175,573</u>	<u>4,319,250</u>
Total liabilities	4,692,173	4,735,862
Net Assets		
Unrestricted	8,118,867	8,437,951
Temporarily restricted	7,783,030	8,515,140
Permanently restricted	<u>10,199,543</u>	<u>10,154,878</u>
Total net assets	<u>26,101,440</u>	<u>27,107,969</u>
Total liabilities and net assets	<u>\$ 30,793,613</u>	<u>\$ 31,843,831</u>

Shawnee State University

Statement of Revenue, Expenses, and Changes in Net Position University

	Year Ended June 30	
	2016	2015
Operating Revenue		
Student tuition and fees (net of scholarship allowances of \$11,115,109 in 2016 and \$11,902,240 in 2015)	\$ 22,579,836	\$ 23,320,139
Federal grants and contracts	2,247,491	2,387,444
State grants and contracts	249,101	286,323
Local grants and contracts	374,240	335,739
Private gifts, grants, and contracts	404,821	576,601
Sales and services	1,815,460	1,846,922
Miscellaneous	302,857	381,092
Total operating revenue	27,973,806	29,134,260
Operating Expenses		
Education and general:		
Instruction and departmental research	19,551,682	19,794,586
Public service	2,289,885	2,244,944
Academic support	3,271,911	3,210,578
Student services	3,751,461	3,833,267
Institutional support	10,372,024	10,147,354
Operation and maintenance of plant	5,488,162	5,581,883
Scholarships and fellowships	6,775,895	6,426,737
Depreciation expense	3,527,238	3,510,953
Auxiliary enterprises	6,426,472	6,109,114
Total operating expenses	61,454,730	60,859,416
Operating Loss	(33,480,924)	(31,725,156)
Nonoperating Revenue (Expenses)		
State appropriations	16,303,575	16,257,877
Federal, state, and local grants and contracts	12,144,024	13,066,875
Private grants and contracts	1,099,577	952,935
Investment income	68,162	342,725
Interest on capital asset-related debt	(695,915)	(757,869)
Loss on disposal of capital assets	(4,722)	(6,668)
Net nonoperating revenue	28,914,701	29,855,875
Change in Net Position Before Capital Appropriations	(4,566,223)	(1,869,281)
Other Revenue - Capital appropriations	421,302	213,636
Decrease in Net Position	(4,144,921)	(1,655,645)
Net Position - Beginning of year	45,548,445	87,804,428
Adjustment for Change in Accounting Principle (Note 2)	-	(40,600,338)
Net Position - Beginning of year, as restated	45,548,445	47,204,090
Net Position - End of year	\$ 41,403,524	\$ 45,548,445

Shawnee State University

Statement of Activities Development Foundation Year Ended June 30, 2016 (with comparative totals for 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2016	Total 2015
Revenue and Other Support					
Contributions	\$ 93,047	\$ 625,839	\$ 44,479	\$ 763,365	\$ 2,742,358
Investment income - Net	(77,894)	(13,820)	-	(91,714)	348,031
Change in value of split-interest agreements	(105,526)	(75,358)	186	(180,698)	536,498
Losses for uncollectible contributions	(8,603)	(6,992)	-	(15,595)	(110,871)
Loss on sale of assets	(5,317)	-	-	(5,317)	(28,779)
Other income	3,500	-	-	3,500	3,500
Rental income	407,412	-	-	407,412	412,205
Net assets released from restrictions	<u>1,261,779</u>	<u>(1,261,779)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue and other support	1,568,398	(732,110)	44,665	880,953	3,902,942
Expenses and Losses					
Scholarships and other student aid	434,363	-	-	434,363	351,161
Institutional support	459,979	-	-	459,979	874,884
Guest speakers and lecturers	18,381	-	-	18,381	11,924
Management and general expenses	350,164	-	-	350,164	463,400
Rental expenses	<u>624,595</u>	<u>-</u>	<u>-</u>	<u>624,595</u>	<u>622,776</u>
Total expenses and losses	<u>1,887,482</u>	<u>-</u>	<u>-</u>	<u>1,887,482</u>	<u>2,324,145</u>
Change in Net Assets	(319,084)	(732,110)	44,665	(1,006,529)	1,578,797
Net Assets - Beginning of year	<u>8,437,951</u>	<u>8,515,140</u>	<u>10,154,878</u>	<u>27,107,969</u>	<u>25,529,172</u>
Net Assets - End of year	<u>\$ 8,118,867</u>	<u>\$ 7,783,030</u>	<u>\$ 10,199,543</u>	<u>\$ 26,101,440</u>	<u>\$ 27,107,969</u>

Shawnee State University

Statement of Activities (Continued) Development Foundation Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Other Support				
Contributions	\$ 1,987,127	\$ 444,037	\$ 311,194	\$ 2,742,358
Investment income - Net	(30,720)	378,751	-	348,031
Change in value of split-interest agreements	(18,671)	475,872	79,297	536,498
Losses for uncollectible contributions	(15,626)	(95,245)	-	(110,871)
Loss on sale of assets	(28,779)	-	-	(28,779)
Other income	3,500	-	-	3,500
Rental income	412,205	-	-	412,205
Net assets released from restrictions	<u>2,157,130</u>	<u>(2,157,130)</u>	<u>-</u>	<u>-</u>
Total revenue and other support	4,466,166	(953,715)	390,491	3,902,942
Expenses and Losses				
Scholarships and other student aid	351,161	-	-	351,161
Institutional support	874,884	-	-	874,884
Guest speakers and lecturers	11,924	-	-	11,924
Management and general expenses	463,400	-	-	463,400
Rental expenses	<u>622,776</u>	<u>-</u>	<u>-</u>	<u>622,776</u>
Total expenses and losses	<u>2,324,145</u>	<u>-</u>	<u>-</u>	<u>2,324,145</u>
Change in Net Assets	2,142,021	(953,715)	390,491	1,578,797
Net Assets - Beginning of year	<u>6,295,930</u>	<u>9,468,855</u>	<u>9,764,387</u>	<u>25,529,172</u>
Net Assets - End of year	<u>\$ 8,437,951</u>	<u>\$ 8,515,140</u>	<u>\$ 10,154,878</u>	<u>\$ 27,107,969</u>

Shawnee State University

Statement of Cash Flows University

	Year Ended June 30	
	2016	2015
Cash Flows from Operating Activities		
Cash received from tuition, fees, and other student charges	\$ 23,094,667	\$ 23,753,410
Cash received from gifts, grants, and contracts	2,964,762	3,497,328
Cash received from sales and services	1,779,944	1,902,832
Cash received from miscellaneous services	302,857	381,092
Cash payments to suppliers for goods and services	(14,321,290)	(13,696,716)
Cash payments to employees for services	(27,278,081)	(26,205,781)
Cash payments for employee benefits	(10,285,877)	(10,998,146)
Cash payments for scholarships and fellowships	(6,775,895)	(6,426,737)
Net cash used in operating activities	(30,518,913)	(27,792,718)
Cash Flows from Noncapital Financing Activities		
State appropriations	16,303,575	16,257,877
Nonexchange gifts, grants, and contracts	13,677,793	13,595,563
Federal direct student loan program receipts	21,579,490	23,722,171
Federal direct student loan program disbursements	(21,149,464)	(23,889,124)
Net cash from agency transactions	50,401	(61,595)
Net cash provided by noncapital financing activities	30,461,795	29,624,892
Cash Flows from Capital and Related Financing Activities		
Capital appropriations	354,235	187,496
Proceeds from capital debt	-	242,046
Payments for capital acquisitions	(801,435)	(1,609,303)
Principal payments	(792,319)	(789,597)
Interest payments	(695,915)	(757,869)
Net cash used in capital and related financing activities	(1,935,434)	(2,727,227)
Cash Flows from Investing Activities		
Interest on investments	747,953	671,329
Proceeds for sales and maturities of investments	2,380,344	478,978
Purchases of securities	(947,948)	(931,990)
Net cash provided by investing activities	2,180,349	218,317
Net Change in Cash and Cash Equivalents	187,797	(676,736)
Cash and Cash Equivalents - Beginning of year	894,069	1,570,805
Cash and Cash Equivalents - End of year	\$ 1,081,866	\$ 894,069

Shawnee State University

Statement of Cash Flows (Continued) University

	Year Ended June 30	
	2016	2015
Reconciliation of operating loss to net cash from operating activities:		
Operating loss	\$ (33,480,924)	\$ (31,725,156)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation expense	3,527,238	3,510,953
Changes in operating assets and liabilities and deferred inflows of resources and deferred outflows of resources which provided (used) cash:		
Accounts receivable	534,602	439,577
Notes receivable	1,875	5,618
Prepaid items	(87,095)	(3,064)
Inventory	1,964	3,336
Accounts payable	146,606	(42,814)
Accrued wages and benefits	(375,031)	499,978
Compensated absences payable	(515,275)	57,948
Unearned revenue	(368,052)	(44,793)
Net pension liability	6,949,434	(2,604,584)
Deferred outflows of resources - Net pension expense	(6,988,535)	(1,116,199)
Deferred inflows of resources - Net pension expense	134,280	3,226,482
Net cash used in operating activities	<u>\$ (30,518,913)</u>	<u>\$ (27,792,718)</u>

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 the state of Ohio (the "State"). The University is a component unit of the State and is included as a discretely presented entity in the State's Comprehensive Annual Financial Report. 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.

GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity - Omnibus*, provide guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Generally, it requires reporting as a component unit an organization that raises and holds significant economic resources for the direct benefit of a government unit.

The Shawnee State University Development Foundation (the "Foundation") is a legally separate, tax-exempt organization supporting the University. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. The Foundation's board of trustees 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 the resources the Foundation holds and invests are restricted by the donors to the activities of the University. 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. The Foundation's financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles as prescribed by the Financial Accounting Standards Board. A separate financial report for the Foundation is available by contacting The Shawnee State University Development Foundation, 940 Second Street, Portsmouth, Ohio, 45662 or by calling 740-351-3284.

Note 1 - Reporting Entity (Continued)

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 (GASB). 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.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation - In accordance with GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and 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.

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, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenue, expenses, changes in net position, and cash flows.

Basis of Accounting - The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Shawnee State University's 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.

Cash and Cash Equivalents - Cash consists primarily of petty cash, cash in banks, and money market accounts. Cash equivalents are short-term highly liquid investments readily convertible to cash with original maturities of three months or less.

Accounts Receivable - Accounts receivable consist 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.

Note 2 - Summary of Significant Accounting Policies (Continued)

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.

Investments - Investments, which include investment contracts and money market investments that have 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 Agincourt Capital Management, Manning & Napier Advisors, and Vaughn Nelson Investment Management, 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 has adopted Governmental Accounting Standards Board (GASB) Statement No. 79, *Accounting and Financial Reporting for Certain External Investment Pools and Pool Participants*, which establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. 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, 2016.

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

Fair Value Measurements - As of June 30, 2016, the University retrospectively applied Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements. See Note 4 for additional information.

Capital Assets - Capital assets utilized by Shawnee State University are reported on the statement of net position. 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 \$5,000 for movable equipment and \$100,000 for buildings. Building improvement projects over \$100,000 are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or significantly extend an asset's life are not.

Note 2 - Summary of Significant Accounting Policies (Continued)

All reported capital assets except for land, land improvements, 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:

Buildings and improvements	25-50 years
Machinery and equipment	5-20 years
Licensed vehicles	5-10 years
Library books	10 years

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 years 2016 and 2015.

Deferred Outflows of Resources - In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The University's deferred outflows of resources is related to the net pension liability. See Note 13 for more information.

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.

Unearned Revenue - Unearned revenue is predominantly made up of two 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 revenue received from the University bookstore vendor. These funds are designated for improvements to the bookstore as part of the University Center renovation project. The funding is dependent on retaining the contract with this vendor. The straight-line method will be used to amortize the revenue over the remaining life of the contract.

Note 2 - Summary of Significant Accounting Policies (Continued)

Pension - For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Ohio Public Employees Retirement System (OPERS) and State Teachers Retirement System of Ohio (STRS), and additions to/deductions from OPERS' and STRS' fiduciary net position have been determined on the same basis as they are reported by OPERS and STRS. OPERS and STRS use the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expense when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources - In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The University deferred inflows of resources related to the net pension liability and service concession agreements. See Note 13 for more on the net pension liability.

Net Position - GASB Statement 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 position categories:

- **Net Investment in Capital Assets** - Capital assets, net of accumulated depreciation, reduced by the outstanding balances of debt and deferred inflows of resources related to the acquisition, construction, or improvement of those assets.
- **Restricted** - Owned by the University, but the use or purpose of the funds is restricted by an external source or entity. The restricted net position category is subdivided further into expendable and nonexpendable.
 - **Restricted Expendable** - May be spent by the institution, but only for the purpose specified by the donor, or other external entity. This category includes the unspent balance in loan funds, debt service funds, and bond-funded capital projects.
 - **Restricted Nonexpendable** - Endowment funds whose principal may be invested; however, only interest, dividends, and capital gains may be spent.
- **Unrestricted** - Resources whose use by the University is not subject to externally imposed stipulations. Unrestricted net position 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.

Note 2 - Summary of Significant Accounting Policies (Continued)

Income Taxes - The University is an organization described in Section 115 of the Internal Revenue Code (the "Code") and has further been classified as an organization that is not a private foundation in accordance with Sections 509(a)(1) and 170(b)(1)(A)(ii) of the Code. However, certain revenue is considered unrelated business income and may be taxable under Code Sections 511 through 513.

Self Insurance - The University is self-insured for certain employee health benefit programs. Funding for these programs is based on actuarial projections provided by the plan administrators. Aggregate stop loss insurance is maintained for benefit payments that exceed the maximum limits outlined in the policy. A liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, is recorded.

Classification of Revenue - Revenue is classified as either operating or nonoperating.

- Operating revenue includes revenue from activities that have characteristics similar to exchange transactions. These include student tuition and fees (net of scholarship discounts and allowances), sales and services of auxiliary enterprises (net of scholarship discounts and allowances), and certain federal, state, local and private grants, and contracts. The presumption is that there is a fair exchange of value between all parties to the transaction.
- Nonoperating revenue includes revenue from activities that have the characteristics of non-exchange transactions, such as state appropriations, and certain federal, state, local and private gifts, and grants. The implication is that such revenue is derived from more passive efforts related to the acquisition of the revenue, rather than the earning of it.

Scholarship Discounts and Allowances - Student tuition and fee revenue, and certain other revenue from students, are reported net of scholarship discounts and allowances in the statement of revenue, expenses, and changes in net position. 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 nonoperating revenue in the University's financial statements based on whether or not they are considered exchange transactions. To the extent that revenue from such programs is used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

Note 2 - Summary of Significant Accounting Policies (Continued)

Service Concession Arrangements - The University has an agreement with a food service provider, which is a service concession arrangement. The University received funds toward dining hall renovations that are contingent upon the University utilizing the services of the food service provider over a 10-year period. The amounts received are being amortized over the life of the contract arrangement. The unamortized amounts previously were reflected as unearned revenue. Under GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, service concession arrangements are to be reported as deferred inflows/outflows of resources. The University recorded deferred inflows of resources of \$360,000 and \$537,143 at June 30, 2016 and 2015, respectively.

Budgetary Process - Although not required under the Ohio Revised Code, estimated budgets are adopted by the University board of trustees in the current fiscal year 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 (GAAP) 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.

Reclassification - In the 2015 financial statements, \$3,188,029 has been reclassified from deferred inflows of resources to deferred outflows of resources to conform to the 2016 presentation. The reclassification increased deferred outflows of resources by \$3,188,029 and decreased deferred inflows of resources for pension costs by \$3,188,029.

Adoption of a New Accounting Pronouncement - As of June 30, 2016, the University retrospectively applied Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

Note 2 - Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements - As of June 30, 2015, the GASB has issued the following statements that were implemented by the University.

- **Accounting for Pensions** - The GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. Statement No. 71 is a clarification to GASB Statement No. 68, requiring a government to recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The statements also enhance accountability and transparency through revised note disclosures and required supplemental information (RSI). In accordance with the statement, the University has reported a net pension liability of approximately \$43 million and a deferred outflow of resources of approximately \$2 million as a change in accounting principle adjustment to unrestricted net position as of July 1, 2014. June 30, 2014 amounts have not been restated to reflect the impact of GASB Statement No. 68 because the information is not available to calculate the impact on pension expense for the fiscal year ended June 30, 2014.

As of June 30, 2016, the GASB has issued the following statement not yet implemented by the University.

- **Accounting for Postemployment Benefits Other Than Pensions** - In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the University to recognize on the face of the financial statements its proportionate share of the net OPEB liability related to its participation in the Ohio Public Employees Retirement System (OPERS) or State Teachers Retirement System (STRS). The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The University is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the University's financial statements for the year ending June 30, 2018.

Shawnee State University

Notes to Financial Statements June 30, 2016 and 2015

Note 3 - Deposits and Investments

Deposits - Custodial credit risk: At June 30, 2016, the carrying amount of the University's deposits (which consist of cash, excluding cash on hand of \$3,715, deposits held by trustee, and investments) was \$1,078,151 and the bank balance was \$1,193,345. The difference in the carrying amount and bank balance primarily results from outstanding checks. Of the bank balance, \$250,000 is covered by the Federal Deposit Insurance Corporation. At June 30, 2015, the carrying amount of the University's deposits, (which consist of cash, excluding cash on hand of \$3,442, deposits held by trustee, and investments) was \$890,627 and the bank balance was \$1,161,575.

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, 2016, the University had the following investments and maturities using the segmented time distribution method:

Investment Type	Fair Value	Investment Maturities (in years)		
		<1	1-5	6-10
U.S. Govt. and agency bonds	\$ 963,325	\$ -	\$ 641,837	\$ 321,488
Corporate bonds and notes	1,794,187	82,541	914,047	797,599
Foreign government bonds	61,007	-	27,836	33,171
Foreign corporate bonds	243,266	35,992	49,588	157,686
Fixed-income mutual funds	3,420,049	-	86,849	3,333,200
Money market funds	186,835	39,793	147,042	-
STAR Ohio funds	2,423,889	2,423,889	-	-
	9,092,558	<u>\$ 2,582,215</u>	<u>\$ 1,867,199</u>	<u>\$ 4,643,144</u>
Equities and equity funds	<u>9,170,549</u>			
	<u>\$ 18,263,107</u>			

Note 3 - Deposits and Investments (Continued)

As of June 30, 2015, the University had the following investments and maturities using the segmented time distribution method:

Investment Type	Fair Value	Investment Maturities (in years)		
		<1	1-5	6-10
U.S. Govt. and agency bonds	\$ 1,058,621	\$ 165,092	\$ 626,539	\$ 266,990
Corporate bonds and notes	1,819,656	20,744	957,169	841,743
Foreign corporate bonds	313,385	-	126,752	186,633
Fixed-income mutual funds	3,416,274	-	44,195	3,372,079
Money market funds	285,634	162,915	122,719	-
STAR Ohio funds	<u>3,416,622</u>	<u>3,416,622</u>	<u>-</u>	<u>-</u>
	10,310,192	<u>\$ 3,765,373</u>	<u>\$ 1,877,374</u>	<u>\$ 4,667,445</u>
Equities and equity funds	<u>10,064,948</u>			
	<u>\$ 20,375,140</u>			

Investments at June 30, 2016 and 2015 are shown in the statement of net position as current in the amount of \$14 and \$122,719, respectively, and as noncurrent in the amount of \$18,263,093 and \$20,252,421, 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. Other than for alternative investments, investments below investment grade and derivatives are specifically prohibited.

Shawnee State University

Notes to Financial Statements June 30, 2016 and 2015

Note 3 - Deposits and Investments (Continued)

As of June 30, 2016 and 2015, the University had the following investments and quality ratings:

Investment Type	Rating	2016 Fair Value	2015 Fair Value
U.S. Govt. and agency bonds	AAA	\$ -	\$ 777,768
	AA+	963,325	280,853
Corporate bonds and notes	AAA	11,687	6,208
	AA	136,936	150,695
	A	719,920	744,735
	BBB	925,644	918,018
Foreign government bonds	A	61,007	-
Foreign corporate bonds	AA	11,038	48,515
	A	61,687	108,935
	BBB	170,541	155,935
Fixed-income mutual funds	AAA	1,514,570	1,512,396
	BBB	1,303,204	1,903,878
	BB	602,275	-
Money market funds	AAA	186,835	285,634
STAR Ohio funds	AAA	2,423,889	3,416,622
		\$ 9,092,558	\$ 10,310,192

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 5.0 percent of the total investment portfolio.

Note 4 - Fair Value Measurements

The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The University's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The University has the following recurring fair value measurements as of June 30, 2016 and 2015:

Assets and Liabilities Measured at Fair Value on a Recurring Basis

	Balance at June 30, 2016	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Debt securities:				
U.S. Treasury securities	\$ 963,325	\$ 852,702	\$ 110,623	\$ -
Foreign government bonds	61,007	-	61,007	-
Domestic corporate bonds	1,794,187	-	1,794,187	-
Foreign corporate bonds	243,266	-	243,266	-
Total debt securities	3,061,785	852,702	2,209,083	-
Equity securities:				
Domestic equity securities	1,536,427	1,536,427	-	-
International equity securities	209,764	209,764	-	-
Total equity securities	1,746,191	1,746,191	-	-
Mutual funds:				
Fixed-income mutual funds	3,420,048	3,420,048	-	-
Domestic equity mutual funds	5,871,858	5,871,858	-	-
Domestic tactical balanced mutual funds	1,552,500	1,552,500	-	-
Money market mutual funds	186,836	186,836	-	-
Total mutual funds	11,031,242	11,031,242	-	-
Total investments by fair value level	\$ 15,839,218	\$ 13,630,135	\$ 2,209,083	\$ -

Note 4 - Fair Value Measurements (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis

	Balance at June 30, 2015	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level:				
Debt securities:				
U.S. Treasury securities	\$ 1,058,621	\$ 777,768	\$ 280,853	\$ -
Domestic corporate bonds	1,819,656	-	1,819,656	-
Foreign corporate bonds	313,385	-	313,385	-
Total debt securities	3,191,662	777,768	2,413,894	-
Equity securities:				
Domestic equity securities	1,663,587	1,663,587	-	-
International equity securities	100,309	100,309	-	-
Total equity securities	1,763,896	1,763,896	-	-
Mutual funds:				
Fixed-income mutual funds	3,416,274	3,416,274	-	-
Domestic equity mutual funds	6,658,214	6,658,214	-	-
Domestic tactical balanced mutual funds	1,642,838	1,642,838	-	-
Money market mutual funds	285,634	285,634	-	-
Total mutual funds	12,002,960	12,002,960	-	-
Total investments by fair value level	\$ 16,958,518	\$ 14,544,624	\$ 2,413,894	\$ -

Short-term investment and investments on the statement of net position at June 30, 2016 and 2015 include investments in STAR Ohio of \$2,423,889 and \$3,416,622, respectively. The investments in STAR Ohio are measured at amortized cost; therefore, they are not included in the tables above. There are no limitations or restrictions on any STAR Ohio participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given to STAR Ohio 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the STAR Ohio investors will be combined for these purposes.

Shawnee State University

Notes to Financial Statements June 30, 2016 and 2015

Note 5 - Accounts Receivable

The composition of accounts receivable at June 30, 2016 and 2015 is summarized as follows:

	2016	2015
Student tuition and fees	\$ 7,039,905	\$ 8,078,576
Grants and contracts	1,475,564	1,769,453
Other	62,833	35,692
Total accounts receivable	8,578,302	9,883,721
Less allowance for doubtful accounts	(2,942,397)	(2,880,748)
Accounts receivable - Net	<u>\$ 5,635,905</u>	<u>\$ 7,002,973</u>

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2016 was as follows:

	Balance July 1, 2015	Reclass and Additions	Reductions	Balance June 30, 2016
Capital assets, not being depreciated:				
Land	\$ 8,003,370	\$ -	\$ -	\$ 8,003,370
Land improvements	6,928,632	-	-	6,928,632
Construction in progress	6,280,874	355,912	(6,234,991)	401,795
Total capital assets not being depreciated	21,212,876	355,912	(6,234,991)	15,333,797
Capital assets being depreciated:				
Buildings and improvements	99,439,807	6,384,280	-	105,824,087
Equipment	13,901,061	205,912	(171,537)	13,935,436
Library books	4,425,294	58,938	(291,876)	4,192,356
Total capital assets being depreciated	117,766,162	6,649,130	(463,413)	123,951,879
Less accumulated depreciation:				
Buildings and improvements	(40,532,056)	(2,840,709)	-	(43,372,765)
Equipment	(11,723,065)	(616,182)	166,815	(12,172,432)
Library books	(4,104,878)	(70,347)	291,876	(3,883,349)
Total accumulated depreciation	(56,359,999)	(3,527,238)	458,691	(59,428,546)
Total capital assets being depreciated - Net	61,406,163	3,121,892	(4,722)	64,523,333
Capital assets - Net	<u>\$ 82,619,039</u>	<u>\$ 3,477,804</u>	<u>\$ (6,239,713)</u>	<u>\$ 79,857,130</u>

Note 6 - Capital Assets (Continued)

Capital assets activity for the fiscal year ended June 30, 2015 was as follows:

	Balance July 1, 2014	Reclass and Additions	Reductions	Balance June 30, 2015
Capital assets, not being depreciated:				
Land	\$ 8,003,370	\$ -	\$ -	\$ 8,003,370
Land improvements	6,928,632	-	-	6,928,632
Construction in progress	<u>5,136,503</u>	<u>1,299,642</u>	<u>(155,271)</u>	<u>6,280,874</u>
Total capital assets not being depreciated	20,068,505	1,299,642	(155,271)	21,212,876
Capital assets being depreciated:				
Buildings and improvements	99,252,718	187,089	-	99,439,807
Equipment	13,804,460	258,327	(161,726)	13,901,061
Library books	<u>4,550,788</u>	<u>86,393</u>	<u>(211,887)</u>	<u>4,425,294</u>
Total capital assets being depreciated	117,607,966	531,809	(373,613)	117,766,162
Less accumulated depreciation:				
Buildings and improvements	(37,822,774)	(2,709,282)	-	(40,532,056)
Equipment	(11,150,647)	(727,476)	155,058	(11,723,065)
Library books	<u>(4,242,570)</u>	<u>(74,195)</u>	<u>211,887</u>	<u>(4,104,878)</u>
Total accumulated depreciation	<u>(53,215,991)</u>	<u>(3,510,953)</u>	<u>366,945</u>	<u>(56,359,999)</u>
Total capital assets being depreciated - Net	<u>64,391,975</u>	<u>(2,979,144)</u>	<u>(6,668)</u>	<u>61,406,163</u>
Capital assets - Net	<u>\$ 84,460,480</u>	<u>\$ (1,679,502)</u>	<u>\$ (161,939)</u>	<u>\$ 82,619,039</u>

Note 7 - Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and state laws. Classified employees and administrators earn 10-25 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.

Shawnee State University

Notes to Financial Statements June 30, 2016 and 2015

Note 8 - Long-term Obligations

The changes in the University's long-term obligations during fiscal year 2016 were as follows:

	Principal Outstanding			Principal Outstanding	
	July 1, 2015	Additions	Deductions	June 30, 2016	Current Portion
2007 General Receipts					
Bonds, Series 2007	\$ 14,365,000	\$ -	\$ 490,000	\$ 13,875,000	\$ 500,000
Unamortized bond premium	606,502	-	29,901	576,601	-
Capital lease	1,237,553	-	302,319	935,234	301,976
Compensated absences	2,439,837	270,486	785,761	1,924,562	192,456
Total long-term liabilities	<u>\$ 18,648,892</u>	<u>\$ 270,486</u>	<u>\$ 1,607,981</u>	<u>\$ 17,311,397</u>	<u>\$ 994,432</u>

The changes in the University's long-term obligations during fiscal year 2015 were as follows:

	Principal Outstanding			Principal Outstanding	
	July 1, 2014	Additions	Deductions	June 30, 2015	Current Portion
2007 General Receipts					
Bonds, Series 2007	\$ 14,835,000	\$ -	\$ 470,000	\$ 14,365,000	\$ 490,000
Unamortized bond premium	633,012	-	26,510	606,502	-
Capital lease	1,285,070	286,720	334,237	1,237,553	302,319
Compensated absences	2,381,889	329,580	271,632	2,439,837	243,984
Total long-term liabilities	<u>\$ 19,134,971</u>	<u>\$ 616,300</u>	<u>\$ 1,102,379</u>	<u>\$ 18,648,892</u>	<u>\$ 1,036,303</u>

In fiscal year 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 percent to 5.0 percent. 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.

In fiscal year 2013, the University entered into a capital lease agreement to fund an IT infrastructure upgrade project. The agreement totaled \$2,820,339 with various payment dates through October 1, 2016. In fiscal year 2015, the University added \$227,407 in net additional capital lease funding and revised the payment schedule to reduce annual payment amounts by extending payment dates through October 1, 2018. As of June 30, 2016, assets totaling \$3,047,632 were purchased utilizing these funds. The assets purchased are included within buildings at June 30, 2016.

Shawnee State University

Notes to Financial Statements June 30, 2016 and 2015

Note 8 - Long-term Obligations (Continued)

The interest expense for fiscal years 2016 and 2015 was \$695,915 and \$757,869, respectively.

Principal and interest amounts due within each of the next five years and thereafter on the Series 2007 bond obligations outstanding at June 30, 2016 are as follows:

Years Ending June 30	Principal	Interest	Total
2017	\$ 500,000	\$ 678,000	\$ 1,178,000
2018	525,000	658,000	1,183,000
2019	550,000	637,000	1,187,000
2020	570,000	615,000	1,185,000
2021	600,000	586,500	1,186,500
2022-2026	3,470,000	2,452,250	5,922,250
2027-2031	4,430,000	1,494,000	5,924,000
2032-2034	3,230,000	328,250	3,558,250
Total	<u>\$ 13,875,000</u>	<u>\$ 7,449,000</u>	<u>\$ 21,324,000</u>

Principal and interest amounts due within each of the next three years on the capital lease obligations outstanding at June 30, 2016 are as follows:

Years Ending June 30	Principal	Interest	Total
2017	\$ 301,976	\$ 29,935	\$ 331,911
2018	311,641	20,270	331,911
2019	321,617	10,294	331,911
Total	<u>\$ 935,234</u>	<u>\$ 60,499</u>	<u>\$ 995,733</u>

Note 9 - Leases

The University's operating leases consist of real property and movable equipment that expires in fiscal year 2029. Total expenditures during 2016 and 2015 under operating leases amounted to approximately \$91,000 and \$100,000, respectively.

Note 10 - 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 significant adverse effect on the overall financial statements of the University at June 30, 2016.

During the normal course of operations, the University has become a defendant in various legal and administrative actions. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. However, in the opinion of in-house legal counsel and University management, the disposition of all pending litigations would not have a significant adverse effect on the University's financial position.

Note 11 - State Support

The University is a state-assisted institution of higher education which receives a student performance-based subsidy from the State of Ohio. This subsidy is determined annually based upon a formula managed by the Ohio Department of Higher Education, adjusted to State resources available. The University also receives a supplemental appropriation to support the goals of improving course completion, increasing the number of degrees conferred, and furthering the University's mission of service to the Appalachian region.

In addition to the performance-based subsidy and supplement, the State of Ohio provides funding for the construction of major plant facilities on the University's campus. State funding for the construction of University facilities is obtained from the issuance of revenue bonds by the Ohio Public Facilities Commission, which in turn initiates the construction and subsequent lease of the facility by the Ohio Department of Higher Education. Upon completion of a facility, the Ohio Department of Higher Education turns over control to the University. The University capitalizes the costs of these facilities as construction is completed and payment is received from the Ohio Public Facilities Commission.

Neither the obligation for the revenue bonds issued by the Ohio Public Facilities Commission nor the annual debt service charges for principal and interest on the bonds are reflected in the University's financial statements. These are funded through appropriations to the Ohio Department of Higher Education by the Ohio General Assembly.

Note 11 - State Support (Continued)

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 Capital Facilities Bond Service Fund, and future payments to be received by such fund, which is established in the custody of the Treasurer of 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 position. In addition, appropriations by the General Assembly to the Ohio Department of Higher Education 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 also receives appropriations from the State to fund capital improvements. The costs, both direct and indirect, are subject to examination and advance approval by the State of Ohio.

Note 12 - 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 13 - Retirement Plans

Plan Description - The University participates in the State Teachers Retirement System (STRS), and the Ohio Public Employees Retirement System (OPERS), statewide, cost-sharing, multiple-employer defined benefit public employee retirement systems governed by the Ohio Revised Code (ORC) that cover substantially all employees of the University, including law enforcement officers of the University. Each system has multiple retirement plan options available to its members, ranging from three in STRS and three in OPERS. Each system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. Each system also provides postemployment healthcare benefits (including Medicare B premiums) to retirees and beneficiaries who elect to receive those benefits.

Note 13 - Retirement Plans (Continued)

Each retirement system issues a publicly available financial report that includes financial statements and required supplemental information for the pension and post-employment healthcare plans. The reports may be obtained by contacting:

State Teachers Retirement System of Ohio
275 E. Broad Street
Columbus, Ohio 43215
(888) 227-7877
www.strsoh.org

Ohio Public Employees Retirement System
277 East Town Street
Columbus, Ohio 43215
(800) 222-7377
www.opers.org

Contributions - State retirement law requires contributions by covered employees and their employers, and Chapter 3307 of the ORC limits the maximum rate of contributions. The retirement boards of the systems individually set contributions rates within the allowable limits. The adequacy of employer contribution rates is determined annually by actuarial valuation using the entry age normal cost method. Under these provisions, each University contribution is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance a portion of the unfunded accrued liability.

Member contributions are 10 percent of gross wages for all plans, set at the maximum authorized by the ORC. The plans' 2016 and 2015 contribution rates on covered payroll to each system are:

	Employer Contribution Rate		
	Pension	Post- retirement	Total
STRS	14.00%	0.00%	14.00%
OPERS	12.00%	2.00%	14.00%
OPERS - Law enforcement	16.10%	2.00%	18.10%

Note 13 - Retirement Plans (Continued)

The University's required and actual contributions to the plans are as follows:

	2016	2015
TRS	\$ 1,655,224	\$ 1,614,083
PERS	1,495,704	1,525,951
Total	<u>\$ 3,150,928</u>	<u>\$ 3,140,034</u>

Benefits Provided

STRS - Plan benefits are established under Chapter 3307 of the Ohio Revised Code, as amended by Substitute Senate Bill 342 in 2012, which gives the Retirement Board the authority to make future adjustments to the member contribution rate, retirement age and service requirements, and the cost-of-living adjustment as the need or opportunity arises, depending on the retirement system's funding progress.

Any member may retire who has (1) five years of service credit and attained age 60; (2) 25 years of service credit and attained age 55; or (3) 30 years of service credit regardless of age. Beginning August 1, 2015, eligibility requirements for an unreduced benefit have changed. The maximum annual retirement allowance, payable for life, considers years of credited service, final average salary (3-5 years) and multiplying by a factor ranging from 2.2 percent to 2.6 percent with 0.1 percent incremental increases for years greater than 30-31, depending on retirement age.

A defined benefit plan or combined plan member with five or more years of credited service who is determined to be disabled (illness or injury preventing the individual's ability to perform regular job duties for at least 12 months) may receive a disability benefit. Additionally, eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013 must have at least 10 years of qualifying service credit to apply for disability benefits.

A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the plan. Death benefit coverage up to \$2,000 can be purchased by participants in all three of the plans. Various other benefits are available to members' beneficiaries.

Note 13 - Retirement Plans (Continued)

OPERS - Plan benefits are established under Chapter 145 of the Ohio Revised Code, as amended by Substitute Senate Bill 343 in 2012. The requirements to retire depend on years of service (15 to 30 years) and attaining the age of 48 to 62, depending on when the employee became a member. Members retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit. Member retirement benefits are calculated on a formula that considers years of service (15-30 years), age (48-62 years), and final average salary, using a factor ranging from 1.0 percent to 2.5 percent.

A plan member who becomes disabled before age 60 or at any age, depending on when the member entered the plan, and has completed 60 contributing months is eligible for a disability benefit.

A death benefit of \$500 - \$2,500 is determined by the number of years of service credit of the retiree. Benefits may transfer to a beneficiary upon death with 1.5 years of service credits with the plan obtained within the last 2.5 years, except for law enforcement and public safety personnel, who are eligible immediately upon employment.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustment, if applicable, is 3.0 percent.

Net Pension Liability, Deferrals, and Pension Expense - At June 30, 2016, the University reported a liability for its proportionate share of the net pension liability of STRS and OPERS. The net pension liability was measured as of July 1, 2015 for the STRS plan and December 31, 2015 for the OPERS plan. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The University's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined.

Plan	Measurement Date	Net Pension Liability		Proportionate Share		Percent Change
		2016	2015	2016	2015	
STRS	July 1	\$ 30,295,455	\$ 27,600,967	0.10962%	0.11347%	-3.39%
OPERS	December 31	14,649,733	10,394,787	0.08469%	0.08633%	-1.90%
Total		<u>\$ 44,945,188</u>	<u>\$ 37,995,754</u>			

Shawnee State University

Notes to Financial Statements June 30, 2016 and 2015

Note 13 - Retirement Plans (Continued)

For the years ended June 30, 2016 and 2015, the University recognized pension expense of \$3,539,600 and \$2,987,565, respectively. At June 30, 2016, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,382,338	\$ 295,025
Net difference between projected and actual earnings on pension plan investments	4,329,058	2,178,816
Changes in proportion and differences between University contributions and proportionate share of contributions	1,664	886,921
University contributions subsequent to the measurement date	2,391,674	-
Total	<u>\$ 8,104,734</u>	<u>\$ 3,360,762</u>

At June 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 265,719	\$ 188,366
Net difference between projected and actual earnings on pension plan investments	556,673	5,106,284
Changes in proportion and differences between University contributions and proportionate share of contributions	-	3,662
University contributions subsequent to the measurement date	2,365,637	-
Total	<u>\$ 3,188,029</u>	<u>\$ 5,298,312</u>

Shawnee State University

Notes to Financial Statements June 30, 2016 and 2015

Note 13 - Retirement Plans (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Amount
2017	\$ 370,972
2018	441,255
2019	579,086
2020	965,696
2021	(882)
Thereafter	(3,829)

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in 2017.

Actuarial Assumptions - The total pension liability is based on the results of an actuarial valuation and was determined using the following actuarial assumptions, applied to all periods included in the measurement for the period ended June 30, 2016, as follows:

	STRS - as of 7/1/15	OPERS - as of 12/31/15
Valuation date	July 1, 2015	December 31, 2015
Actuarial cost method	Entry age normal	Individual entry age
Cost of living	2.0 percent	3.0 percent
Salary increases, including inflation	2.75 percent - 12.25 percent	4.25 percent - 10.05 percent
Inflation	2.75 percent	3.75 percent
Investment rate of return	7.75 percent - Net of pension plan investment expense	8.00 percent - Net of pension plan investment expense
Experience study date	Period of 5 years ended July 1, 2012	Period of 5 years ended December 31, 2010
Mortality basis	RP-2000 Combined Mortality Table (Projection 2022-Scale AA)	RP-2000 Mortality Table (Projected 20 years using Projection Scale AA)

Note 13 - Retirement Plans (Continued)

The following actuarial assumptions, applied to all periods included in the measurement for the period ended June 30, 2015, were as follows:

	STRS - as of 7/1/14	OPERS - as of 12/31/14
Valuation date	July 1, 2014	December 31, 2014
Actuarial cost method	Entry age normal	Individual entry age
Cost of living	2.0 percent	3.0 percent
Salary increases, including inflation	2.75 percent - 12.25 percent	4.25 percent - 10.05 percent
Inflation	2.75 percent	3.75 percent
Investment rate of return	7.75 percent - Net of pension plan investment expense	8.00 percent - Net of pension plan investment expense
Experience study date	Period of 5 years ended July 1, 2012	Period of 5 years ended December 31, 2010
Mortality basis	RP-2000 Combined Mortality Table (Projection 2022-Scale AA)	RP-2000 Mortality Table (Projected 20 years using Projection Scale AA)

Discount Rate - The discount rates used to measure the total pension liability were 7.75 percent and 8.0 percent for STRS and OPERS, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates for all plans. Based on those assumptions, each pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Note 13 - Retirement Plans (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following tables:

Investment Category	STRS - as of 7/1/15		Investment Category	OPERS - as of 12/31/15	
	Target Allocation	Long-term Expected Real Rate of Return		Target Allocation	Long-term Expected Real Rate of Return
Domestic equity	31.00%	8.00%	Fixed income	23.00%	2.31%
International equity	26.00%	7.85%	Domestic equities	20.70%	5.84%
Alternatives	14.00%	8.00%	Real estate	10.00%	4.25%
Fixed income	18.00%	3.75%	Private equity	10.00%	9.25%
Real estate	10.00%	6.75%	International equity	18.30%	7.40%
Liquidity reserves	1.00%	3.00%	Other investments	18.00%	4.59%
Total	100.00%		Total	100.00%	

Investment Category	STRS - as of 7/1/14		Investment Category	OPERS - as of 12/31/14	
	Target Allocation	Long-term Expected Real Rate of Return		Target Allocation	Long-term Expected Real Rate of Return
Domestic equity	31.00%	5.50%	Fixed income	23.00%	2.31%
International equity	26.00%	5.35%	Domestic equities	19.90%	5.84%
Alternatives	14.00%	5.50%	Real estate	10.00%	4.25%
Fixed income	18.00%	1.25%	Private equity	10.00%	9.25%
Real estate	10.00%	4.25%	International equity	19.10%	7.40%
Liquidity reserves	1.00%	0.50%	Other investments	18.00%	4.59%
Total	100.00%		Total	100.00%	

Shawnee State University

Notes to Financial Statements June 30, 2016 and 2015

Note 13 - Retirement Plans (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the University, calculated using the discount rate listed below, as well as what the University's net pension liability would be if it were calculated using a discount rate that is 1.00 percentage point lower or 1.00 percentage point higher than the current rate for the period ended June 30, 2016:

<u>Plan</u>	<u>1.00 Percent Decrease</u>		<u>Current Discount Rate</u>		<u>1.00 Percent Increase</u>	
STRS	6.75%	\$ 42,082,672	7.75%	\$ 30,295,455	8.75%	\$ 20,327,605
OPERS	7.00%	23,373,034	8.00%	14,649,733	9.00%	7,292,921
		<u>\$ 65,455,706</u>		<u>\$ 44,945,188</u>		<u>\$ 27,620,526</u>

The following presents the net pension liability of the University, calculated using the discount rate listed below, as well as what the University's net pension liability would be if it were calculated using a discount rate that is 1.00 percentage point lower or 1.00 percentage point higher than the current rate for the period ended June 30, 2015:

<u>Plan</u>	<u>1.00 Percent Decrease</u>		<u>Current Discount Rate</u>		<u>1.00 Percent Increase</u>	
STRS	6.75%	\$ 39,512,167	7.75%	\$ 27,600,967	8.75%	\$ 17,526,003
OPERS	7.00%	19,160,524	8.00%	10,394,787	9.00%	2,985,361
		<u>\$ 58,672,691</u>		<u>\$ 37,995,754</u>		<u>\$ 20,511,364</u>

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued STRS/OPERS financial report.

Note 13 - Retirement Plans (Continued)

Defined Contribution Plans - 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 his/her employment with the University.

An employee in an OPERS eligible position contributes 10 percent of his/her earned income to their ARP account. Legislation mandates the employer must contribute an amount to the state retirement system to which the employee would otherwise have belonged. For the years ended June 30, 2016 and 2015, 13.23 percent was paid into the member's ARP account and the remaining 0.77 percent was paid to OPERS, as required by state legislation, to cover unfunded liabilities.

An employee in a STRS Ohio eligible position contributes 13 percent of their earned income to their ARP account. Legislation mandates the employer must contribute an amount to the state retirement system to which the employee would otherwise have belonged. For the year ended June 30, 2016, 9.5 percent was paid into the member's ARP account and the remaining 4.5 percent was paid to STRS Ohio. For the year ended June 30, 2015, 9.5 percent was paid into the member's ARP account and the remaining 4.5 percent was paid to STRS Ohio, as required by state legislation, to cover unfunded liabilities.

As of June 30, 2016 and 2015, there are approximately 71 and 51 active participants, respectively, participating in an ARP. The University's contribution for employees enrolled in ARP accounts for fiscal years 2016, 2015, and 2014 was \$490,810, \$462,550, and \$470,142, respectively.

Combined Plans - OPERS and STRS Ohio also offer combined plans with features of both a defined benefit plan and a defined contribution plan. In the combined plans, employee contributions are invested in self-directed investments, and the employer contribution is used to fund a reduced defined benefit.

Note 14 - Postemployment Benefits

Ohio Public Employees Retirement System (OPERS) - OPERS provides access to postretirement healthcare coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. OPERS' eligibility requirements for postemployment healthcare coverage are changed for those retiring on and after January 1, 2015. Please see the plan statement in the OPERS 2015 CAFR for details. Access to healthcare 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 per the Ohio Revised Code.

OPERS' Postemployment Health Care Plan was established under, and is administered in accordance with, Internal Revenue Code Section 401(h). Each year, the OPERS board of trustees determines the portion of the employer contribution rate that will be set aside for funding of postemployment health care. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan, as recommended by OPERS' actuary, was 2.0 percent during calendar years 2016 and 2015. The OPERS board of trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The portion of the University's 2016, 2015, and 2014 contributions to OPERS used to fund postemployment benefits was \$213,589, \$218,291, and \$162,739, respectively.

State Teachers Retirement System (STRS Ohio) - STRS Ohio provides access to healthcare 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 the Ohio Revised Code, the retirement board has discretionary authority over how much, if any, of the associated healthcare costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the healthcare costs in the form of a monthly premium.

Previously, under Ohio law, funding for postemployment health care could be deducted from employer contributions. Effective July 1, 2014, no employer contributions for STRS are being allocated to postemployment health care.

Note 15 - 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. To address these exposures and reduce premiums, the University is a member of the Inter-University Council of Ohio Insurance Consortium (IUC-IC), a purchasing partnership with 12 other Ohio four-year public universities.

During fiscal year 2016, the University maintained the lines of coverage below. All limits are dedicated to the University, unless explicitly noted as shared with other IUC-IC members. Real property and contents are 100 percent insured.

Lines of Coverage	Limit of Liability	Deductible
"All Risk" Property Coverage Including Boiler & Machinery	\$250,000 (Pool)	\$100,000
	\$100,000,000	\$350,000 (Pool)
	\$900,000,000 excess \$100,000,000 ⁽¹⁾	N/A
Automobile Physical Damage	Actual Cash Value	\$1,000
IUC-IC Casualty Pool	\$900,000	\$100,000
General Liability	\$10,000,000 ⁽²⁾	N/A
Automobile Liability	\$10,000,000 ⁽²⁾	N/A
Educators Legal Liability	\$10,000,000 ⁽²⁾	N/A
1st Excess Liability	\$15,000,000 excess	N/A
	\$10,000,000 ⁽¹⁾	
1st Excess Educators Legal Liability	\$15,000,000 excess	N/A
	\$10,000,000 ⁽¹⁾	
2nd Excess Liability	\$25,000,000 excess	N/A
	\$25,000,000 ⁽¹⁾	
Crime	\$5,000,000	\$100,000
Medical Malpractice	\$1,000,000 occ./ \$3,000,000 agg.	\$25,000
Foreign	\$1,000,000	-
Special Accident	\$20,000,000	-
Pollution	\$5,000,000 ⁽¹⁾	\$25,000
Cyber Risk/Breach Response	\$1,000,000	\$25,000

Notes:

(1) Shared limits with other IUC-IC members

(2) Reinsurance provided by private carrier for \$9,000,000 excess of \$1,000,000

The University has an international travel comprehensive services assistance plan. The plan covers medical, security, and traveler assistance.

The University has a self-insured healthcare plan.

Note 15 - Risk Management (Continued)

Changes in the self-insurance claims liability for the years ended June 30, 2016, 2015, and 2014 are summarized as follows:

	2016	2015	2014
Accrued claims liability - Beginning of year	\$ 614,345	\$ 514,099	\$ 558,893
Current year claims	4,127,013	4,895,035	4,609,104
Claims payments	<u>(4,246,595)</u>	<u>(4,794,789)</u>	<u>(4,653,898)</u>
Accrued claims liability - End of year	<u>\$ 494,763</u>	<u>\$ 614,345</u>	<u>\$ 514,099</u>

The liability amounts above are recorded in accrued wages and benefits on the statement of net position.

Workers' compensation benefits are provided through the Ohio Bureau of Workers' Compensation. Under Ohio's laws, there are no policy limits or cap on these benefits so long as treatment and compensation arise from the allowed conditions in a claim. There has been no significant change in coverage from last year.

Note 16 - Component Unit Disclosure

Basis of Presentation

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.

Net Assets

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, 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, 2016 and 2015 are restricted primarily for scholarships, University programs, and capital improvements.

Note 16 - Component Unit Disclosure (Continued)

Contribution Revenue

Contributions, including unconditional promises to give, are recognized as revenue 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.

Investments

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, 2016 and 2015, by classification is as follows:

	2016	2015
U.S. government securities	\$ 1,096,177	\$ 852,857
Foreign bond issues	222,907	174,514
Mutual funds:		
Equity	7,230,836	7,938,681
Fixed income	2,645,293	3,205,885
Balanced	2,188,424	2,374,615
Common stock	2,697,923	2,554,215
Corporate bond issues	1,521,224	1,156,124
Total	<u>\$ 17,602,784</u>	<u>\$ 18,256,891</u>

Note 16 - Component Unit Disclosure (Continued)

Assets Measured at Fair Value on a Recurring Basis at June 30, 2016

Assets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2016
U.S. government securities	\$ 1,096,177	\$ -	\$ -	\$ 1,096,177
Mutual funds:				
Equity	7,230,836	-	-	7,230,836
Fixed income	2,645,293	-	-	2,645,293
Balanced	2,188,424	-	-	2,188,424
Common stock:				
Industrials	193,687	-	-	193,687
Healthcare	349,801	-	-	349,801
Information technology	632,469	-	-	632,469
Telecomm	12,325	-	-	12,325
Energy	36,044	-	-	36,044
Materials	209,688	-	-	209,688
Foreign	353,613	-	-	353,613
Financials	365,516	-	-	365,516
Consumer goods	468,898	-	-	468,898
Real estate	75,882	-	-	75,882
Foreign bond issues	-	222,907	-	222,907
Corporate bond issues	-	1,521,224	-	1,521,224
Beneficial interest in trusts	-	-	952,875	952,875
Total assets	<u>\$ 15,858,653</u>	<u>\$ 1,744,131</u>	<u>\$ 952,875</u>	<u>\$ 18,555,659</u>

Shawnee State University

Notes to Financial Statements June 30, 2016 and 2015

Note 16 - Component Unit Disclosure (Continued)

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

Assets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2015
U.S. government securities	\$ 852,857	\$ -	\$ -	\$ 852,857
Mutual funds:				
Equity	7,938,681	-	-	7,938,681
Fixed income	3,205,885	-	-	3,205,885
Balanced	2,374,615	-	-	2,374,615
Common stock:				
Industrials	309,526	-	-	309,526
Healthcare	401,594	-	-	401,594
Information technology	528,835	-	-	528,835
Energy	86,307	-	-	86,307
Materials	125,971	-	-	125,971
Foreign	167,959	-	-	167,959
Financials	175,045	-	-	175,045
Consumer goods	690,267	-	-	690,267
Real estate	68,711	-	-	68,711
Foreign bond issues	-	174,514	-	174,514
Corporate bond issues	-	1,156,124	-	1,156,124
Beneficial interest in trusts	-	-	1,016,169	1,016,169
Total assets	<u>\$ 16,926,253</u>	<u>\$ 1,330,638</u>	<u>\$ 1,016,169</u>	<u>\$ 19,273,060</u>

Fixed Assets

During fiscal year 2016, the Foundation acquired one new property. The transaction occurred on November 23, 2015 at the purchase price of \$150,000.

During the year ended June 30, 2015, the Foundation was the recipient of real property known as the Tauren property. The Tauren property was donated on September 12, 2014 with a fair value of \$1,915,000 and was recorded as a gift-in-kind contribution.

Shawnee State University

Notes to Financial Statements June 30, 2016 and 2015

Note 16 - Component Unit Disclosure (Continued)

Property and equipment consist of the following:

	2016	2015
Land	\$ 2,168,264	\$ 2,000,770
Equipment and furniture	5,747	5,747
Buildings	9,551,652	9,544,230
Construction in progress	15,699	-
Total property and equipment	11,741,362	11,550,747
Accumulated depreciation	535,279	300,225
Net property and equipment	<u>\$ 11,206,083</u>	<u>\$ 11,250,522</u>

Debt

The Foundation entered into a \$4,500,000 note with an interest rate of 5.0 percent payable to Hatcher Real Estate, LLC for the purchase of the Fourth Street Properties. The note is secured by the land and buildings. This note is payable in monthly installments of \$29,698. The payments are based on a 20-year amortization schedule and include a balloon payment due at maturity on February 25, 2019 for the remaining balance. The Foundation will have an option to extend the maturity date for a two-year period; however, payments will continue during that time. At June 30, 2016 and 2015, the outstanding principal balance of the note was \$4,175,573 and \$4,319,250, respectively.

Related Party Transactions

During the years ended June 30, 2016 and 2015, the Foundation made distributions of \$994,464 and \$1,329,223, respectively, 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.

Required Supplementary Information

Shawnee State University

Schedule of the University's Proportionate Share of the Net Pension Liability

	<u>OPERS</u> <u>2016</u>	<u>STRS</u> <u>2016</u>
University's proportion of the collective net pension liability:		
As a percentage	0.08469%	0.10962%
Amount	\$ 14,649,733	\$ 30,295,455
University's covered-employee payroll	\$ 10,894,207	\$ 11,436,893
University's proportionate share of the collective pension liability (amount), as a percentage of the University's covered-employee payroll	134.47%	264.89%
Plan fiduciary net position as a percentage of the total pension liability	81.19%	72.10%

Schedule of University Contributions

	<u>OPERS</u> <u>2016</u>	<u>STRS</u> <u>2016</u>
Statutorily required contribution	\$ 1,495,704	\$ 1,655,224
Contributions in relation to the actuarially determined contractually required contribution	\$ 1,495,704	\$ 1,655,224
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	\$ 10,683,600	\$ 11,823,029
Contributions as a percentage of covered-employee payroll	14.00%	14.00%

Schedule of the University's Proportionate Share of the Net Pension Liability

	<u>OPERS</u> <u>2015</u>	<u>STRS</u> <u>2015</u>
University's proportion of the collective net pension liability:		
As a percentage	0.08633%	0.11347%
Amount	\$ 10,394,787	\$ 27,600,967
University's covered-employee payroll	\$ 10,899,653	\$ 10,440,100
University's proportionate share of the collective pension liability (amount), as a percentage of the University's covered-employee payroll	95.37%	264.37%
Plan fiduciary net position as a percentage of the total pension liability	86.53%	74.71%

Schedule of University Contributions

	<u>OPERS</u> <u>2015</u>	<u>STRS</u> <u>2015</u>
Statutorily required contribution	\$ 1,534,786	\$ 1,623,157
Contributions in relation to the actuarially determined contractually required contribution	\$ 1,534,786	\$ 1,623,157
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	\$ 10,962,757	\$ 11,593,979
Contributions as a percentage of covered-employee payroll	14.00%	14.00%

Shawnee State University

Notes to Required Supplementary Information Year Ended June 30, 2016

Changes of benefit term - Amounts reported in 2016 for OPERS and STRS reflect no change in benefits.

Changes of assumptions - Amounts reported in 2016 reflect no adjustments based on changes of assumptions such as life expectancies, retired life mortality, or retirement age.

Supplementary Information

Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To Management and the Board of Trustees
Shawnee State University

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Shawnee State University (the "University"), a component unit of the State of Ohio, and its discretely presented component unit, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the University's financial statements, and have issued our report thereon dated September 12, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Shawnee State University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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

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

To Management and the Board of Trustees
Shawnee State University

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

September 12, 2016

Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance
Independent Auditor's Report

To the Board of Trustees
Shawnee State University

Report on Compliance for Each Major Federal Program

We have audited Shawnee State University's (the "University") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Shawnee State University's major federal programs based on our audit of the types of compliance requirements referred to above.

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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Shawnee State University's compliance.

To the Board of Trustees
Shawnee State University

Opinion on Each Major Federal Program

In our opinion, Shawnee State University complied, in all material respects, with the types of 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, 2016.

Report on Internal Control Over Compliance

Management of Shawnee State University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Shawnee State University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 the 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 a 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. 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.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Plante & Moran, PLLC

September 12, 2016

Shawnee State University

Schedule of Expenditures of Federal Awards Year Ended June 30, 2016

Federal Grantor/Pass-through Grantor/Program Title	CFDA No.	Federal/Pass-through Grant Number	Total Amount Provided to Subrecipients	Expenditures
<u>U. S. Department of Education:</u>				
Direct from Federal Agency -				
Student Financial Assistance Cluster:				
Federal Supplemental Educational Opportunity Grants (SEOG)	84.007	N/A	\$ -	\$ 127,418
Federal College Work Study	84.033	N/A	-	137,422
Federal Pell Grant Program	84.063	N/A	-	8,090,603
Federal Direct Loan Program	84.268	N/A	-	21,149,464
Teacher Education Assistance for College & Higher Education (TEACH)	84.379	N/A	-	86,048
Total Student Financial Aid Cluster				29,590,955
TRIO Cluster:				
Student Support Services	84.042A	N/A	-	85,628
Upward Bound	84.047A	N/A	-	278,001
Upward Bound Math Science	84.047M	N/A	-	218,685
Educational Opportunity Centers	84.066A	N/A	-	400,645
Total TRIO Cluster				982,959
<u>U. S. Department of Education:</u>				
Pass through the University of Dayton				
Special Education Cluster (IDEA):				
Broadening Horizons	84.027	RSC15079	-	130,874
Simultaneous Renewal	84.027	RSC16039	-	29,111
Teachers for All Students	84.027	RSC15085	-	105,232
Total Special Education Cluster (IDEA)				265,217
<u>U.S. Department of Justice/Bureau of Justice Assistance</u>				
Edward Byrne Memorial Justice Grant	16.738	N/A	-	3,265
<u>U. S. Department of Education:</u>				
Pass through the Ohio Department of Education:				
Twenty-First Century Community Learning Centers	84.287	063321-TISI	-	774,662
All Together	84.323A	N/A	-	8,361
Science By Inquiry	84.367	N/A	-	54,384
Subtotal Pass-through Programs				837,407
<u>U. S. Department of Agriculture</u>				
Pass through Ohio Department of Education -				
Child and Adult Care Food Program	10.558	16-CU, 21-CU, 21-FU	-	9,392
<u>National Aeronautics and Space Administration</u>				
Pass through Space Telescope Science Institute -				
Space Telescope Project	43.012	N/A	-	1,746
Total Federal Expenditures				\$ 31,690,941

Shawnee State University

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2016

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Shawnee State University under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of Shawnee State University, it is not intended to and does not present the financial position, changes in net position, or cash flows of Shawnee State University.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the same basis of accounting as the basic financial statements. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-21, *Cost Principles for Educational Institutions*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

The University has not elected to use the 10 percent de minimus indirect cost rate to recover indirect costs as allowed under the Uniform Guidance.

Note 3 - Federal Work-study and Federal SEOG Waiver

For the year ended June 30, 2016, 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 4 - Federal Direct Loan Program

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

Shawnee State University

Schedule of Findings and Questioned Costs Year Ended June 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516 (a)? Yes No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.007, 84.033, 84.063, 84.268, 84.379 84.287	Student Financial Assistance Cluster Twenty-First Century Community Learning Centers

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes No

Shawnee State University

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2016

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None

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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
OCTOBER 4, 2016**