

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

Financial Report
with Supplementary Information
June 30, 2018



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 Shawnee State University, Scioto County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2017 through June 30, 2018. 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. 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

December 5, 2018

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Shawnee State University

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Independent Auditor's Report

To the Board of Trustees
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, 2018 and 2017 and the related notes to the financial statements, which collectively comprise Shawnee State University's basic 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 audits 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.

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, 2018 and 2017 and the changes in its net position and its cash flows where applicable thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees
Shawnee State University

Emphasis of Matter

As discussed in Note 2 to the basic financial statements, the University adopted the provisions under GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, as of July 1, 2017. 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, the schedule of university pension contributions, the schedule of the University's proportionate share of the net OPEB liability, and the schedule of university OPEB 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 an opinion on the financial statements that collectively comprise Shawnee State University's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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 November 19, 2018 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.



November 19, 2018

Shawnee State University

Management's Discussion and Analysis (Unaudited)

This unaudited section of Shawnee State University's (the "University") annual financial report presents a discussion and analysis of the financial performance of the University during the fiscal year ended June 30, 2018. 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*, GASB Statement No. 61, *The Financial Reporting Entity*, and GASB Statement No. 80, *Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14 - Omnibus*, 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.

Financial Highlights

Key financial highlights for 2018 are as follows:

- Total net position decreased \$5,788,152. Of this decrease, \$12,724,448 was the impact due to the implementation of GASB Statement No. 75. The GASB 75 decrease is offset by a \$11,986,641 increase due to GASB 68 reduction of pension expense. The remaining decrease is primarily the result of a \$2,195,167 decrease in state capital appropriations, a \$1,683,446 decline in student tuition and fee revenue, a decrease of \$1,059,658 in federal, state and local grant and contract revenue and a \$867,776 decrease in investment revenue.
- Total assets decreased \$4,786,887. Current assets increased \$913,287 due to the liquidation of investment holdings to supplement the University's cash needs during the year.
- Noncurrent assets (excluding capital assets) decreased \$5,713,349 as the result of the liquidation of restricted investments to fund Bond Series 2016 construction projects and a reduction in investments held by the University for cash needs.
- Total Deferred Outflows of Resources decreased \$1,685,982 mainly due to the deferred portion of the GASB Statement No. 68 pension expense adjustment.

Shawnee State University

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

- The \$6,841,541 decrease in total liabilities was primarily due to the \$19,031,393 decrease to the net pension liability related to GASB Statement No. 68 and partially offset by the \$11,774,361 increase as the result of the implementation of GASB Statement No. 75.
- Total deferred inflows of resources increased \$6,156,824 primarily due to the \$5,230,483 and \$1,078,374 increases in deferred pension costs related to GASB Statement No. 68 and Statement No. 75, respectively.
- Total revenue decreased \$5,389,377 from 2017 to 2018 compared with an increase of \$3,892,377 from 2016 to 2017. The decrease was primarily due to a \$2,195,167 decrease in capital appropriations, a \$1,683,446 decrease in student tuition and fees revenue, a \$867,776 decrease in investment income and a \$733,776 increase in operating state grant revenue.
- Total expenses decreased \$16,204,963 as compared with an increase of \$3,626,746 from 2016 to 2017 as a result of the \$11,986,641 GASB 68 reduction of pension expense.
- Operating expenses decreased \$15,354,706 primarily as a result of the \$11,986,641 GASB 68 reduction of pension expense.
- Operating revenue decreased by \$1,020,951 primarily due to decreased student tuition and fees. Operating grant revenue (revenue for projects which result in an “exchange” like a product, report or some form of an outcome) was up \$258,625 but nonoperating grant revenue (grants that are not exchange transactions, such as scholarship grants like Pell, SEOG, OCOG) was down \$1,305,746.
- Nonoperating revenue decreased \$2,173,259 as a result of a \$1,305,746 decrease in nonoperating grant revenue and a \$867,776 decrease in investment revenue. Nonoperating expenses decreased \$850,257 as a result of a decrease in interest expense on related debt and losses on the disposal of capital assets in 2018.

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 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 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 2018?” 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

Shawnee State University

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

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. Nonfinancial factors such as student retention rate, enrollment growth, and condition of facilities must also be considered.

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 of resources minus total liabilities and deferred inflows of resources equal net position. The University's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of June 30, 2018, 2017, and 2016 are presented below:

	2018	2017	2016
Assets			
Current assets	\$ 6,717,677	\$ 5,804,390	\$ 7,252,468
Capital assets - Net	81,463,970	81,450,795	79,857,130
Other noncurrent assets	19,356,891	25,070,240	18,263,093
Total assets	107,538,538	112,325,425	105,372,691
Deferred Outflows of Resources	11,253,663	12,939,645	8,104,734
Liabilities			
Current liabilities	8,799,530	7,305,898	7,074,526
Noncurrent liabilities	70,048,677	78,383,850	61,278,613
Total liabilities	78,848,207	85,689,748	68,353,139
Deferred Inflows of Resources	8,207,912	2,051,088	3,720,762
Net Position			
Net investment in capital assets	66,291,426	67,208,092	65,400,451
Restricted, expendable	173,500	168,546	196,489
Unrestricted	(34,728,844)	(29,852,404)	(24,193,416)
Total net position	<u>\$ 31,736,082</u>	<u>\$ 37,524,234</u>	<u>\$ 41,403,524</u>

Shawnee State University

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

Total assets of the University decreased \$4,786,887 in 2018 and increased \$6,952,734 in 2017. Current assets increased \$913,287 in 2018 following a \$1,448,078 decrease in 2017. The increase in 2018 is predominantly attributable to the liquidation of investment holdings to supplement the University's cash needs during the year. The decrease in 2017 was the result of utilizing existing cash and cash equivalent balances to fund cash needs during the year. Noncurrent assets (excluding capital assets) decreased \$5,713,349 in 2018 due to the utilization of the Bond Series 2016 funding for new capital projects related to the debt. The \$6,807,147 increase in 2017 is predominantly attributable to the \$7,200,000 capital debt funding received from the issuance of Bond Series 2016.

The \$13,175 increase of net capital assets in 2018 was due to depreciation expense and the loss on disposals of capital assets equaling the cost of construction projects completed during 2018. The increased number of capital construction projects initiated in 2017 resulted in an increase of \$1,593,665 in net capital assets.

The \$6,841,541 decrease in total liabilities was primarily due to the \$19,031,393 decrease 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. The net pension liability related to GASB Statement No. 68 is partially offset by the \$11,774,361 increase as the result of the implementation of GASB Statement No. 75 to recognize the University's proportionate share of the net other postemployment benefits (OPEB) as determined by the two pension plans associated with the University. See Note 13 to the financial statements for further details.

The \$17,336,609 increase in 2017 in total liabilities is primarily due to a \$17,105,237 increase in noncurrent liabilities. The total increase is mainly attributable to a \$10,575,739 increase to recognize the University's proportionate share of the net pension liability. In addition, the University issued a general receipts bond, Bond Series 2016, to refund an outstanding bond series and to provide funding for new capital projects. The new bond series increased total liabilities by \$6,970,000.

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, 2018, 2017, and 2016 are as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating revenue:			
Tuition, fees, and other student charges	\$ 20,433,024	\$ 22,116,470	\$ 22,579,836
Grants and contracts	4,112,850	3,854,225	3,275,653
Sales and services	2,207,409	1,969,224	1,815,460
Miscellaneous income	496,926	331,241	302,857
Nonoperating revenue:			
Investment income	922,233	1,790,009	68,162
State appropriations	15,811,797	15,811,534	16,303,575
Other grants	11,260,695	12,566,441	13,243,601
Capital appropriations	<u>1,268,512</u>	<u>3,463,679</u>	<u>421,302</u>
Total revenue	56,513,446	61,902,823	58,010,446
Operating expenses:			
Instruction and research	8,890,534	21,416,995	19,551,682
Public service	2,060,195	2,565,655	2,289,885
Academic support	2,677,238	3,050,404	3,271,911
Student services	4,286,628	4,441,226	3,751,461
Institutional support	10,916,284	11,420,704	10,372,024
Operation and maintenance of plant	4,793,929	5,260,516	5,488,162
Scholarships and fellowships	5,330,743	6,083,506	6,775,895
Depreciation	3,650,888	3,607,092	3,527,238
Auxiliary enterprises	6,525,600	6,640,647	6,426,472
Nonoperating expense:			
Interest on capital debt	437,761	1,081,197	695,915
Loss on disposal of capital assets	<u>7,350</u>	<u>214,171</u>	<u>4,722</u>
Total expenses	<u>49,577,150</u>	<u>65,782,113</u>	<u>62,155,367</u>
(Decrease)increase in net position	<u>\$ 6,936,296</u>	<u>\$ (3,879,290)</u>	<u>\$ (4,144,921)</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 2018. Rates charged for undergraduate out-of-state students and all graduate students increased 2.5 percent effective in the fall 2017 semester.

The University's 2018 revenue from student tuition and fees has decreased to \$20,433,024 from \$22,116,470 in 2017 and \$22,579,836 in 2016 due to decreased enrollment over these years. Tuition and fees represent 36.2 percent of the University's total revenue in 2018, 35.7 percent in 2017 and 38.9 percent in 2016. The 6.3 percent increase in operating grants and contracts revenue to \$4,112,850 in 2018 from \$3,854,225 in 2017 is attributable to the increased funding the University received from initiatives to identify and obtain new grant funding in 2018 and 2017.

The combination of the GASB 68 and GASB 75 reduction of \$11,986,641 to 2018 pension expense and the \$278,523 increase in non-GASB 68 and GASB 75 operating expenses resulted in a 23.8 percent decrease in total operating expenses in 2018 when compared to 2017 spending levels. The non-GASB related increase in operating expenses is mainly a result of a \$636,004 increase in institutional support and a \$360,214 increase in instruction and departmental research as a result of new strategic plan initiatives such as enrollment management programs or new software applications implemented to increase operational efficiency. These increases are partially offset by a \$752,763 decrease in scholarship and fellowship expenses in 2018 primarily due to decreased enrollment in 2018.

State appropriations represent 28.0 percent of the University's total revenue in 2018, 25.5 percent in 2017, and 28.1 percent in 2016. These percentages illustrate that tuition and fee revenue is not sufficient to cover operational expenses. The University has considerable dependency upon a predictable and relatively stable level of state appropriation funding.

During 2018, investment income amounted to \$922,233 as compared to \$1,790,009 during 2017 and \$68,162 during 2016. This performance mirrors the general growth experienced in investment markets during this period. During the last quarter of fiscal year 2016, the University initiated a review for a new investment consultant as well as new investment managers to improve the University's long-term investment performance. As a result of the review, TIAA was selected as the investment manager of the University's investment portfolio.

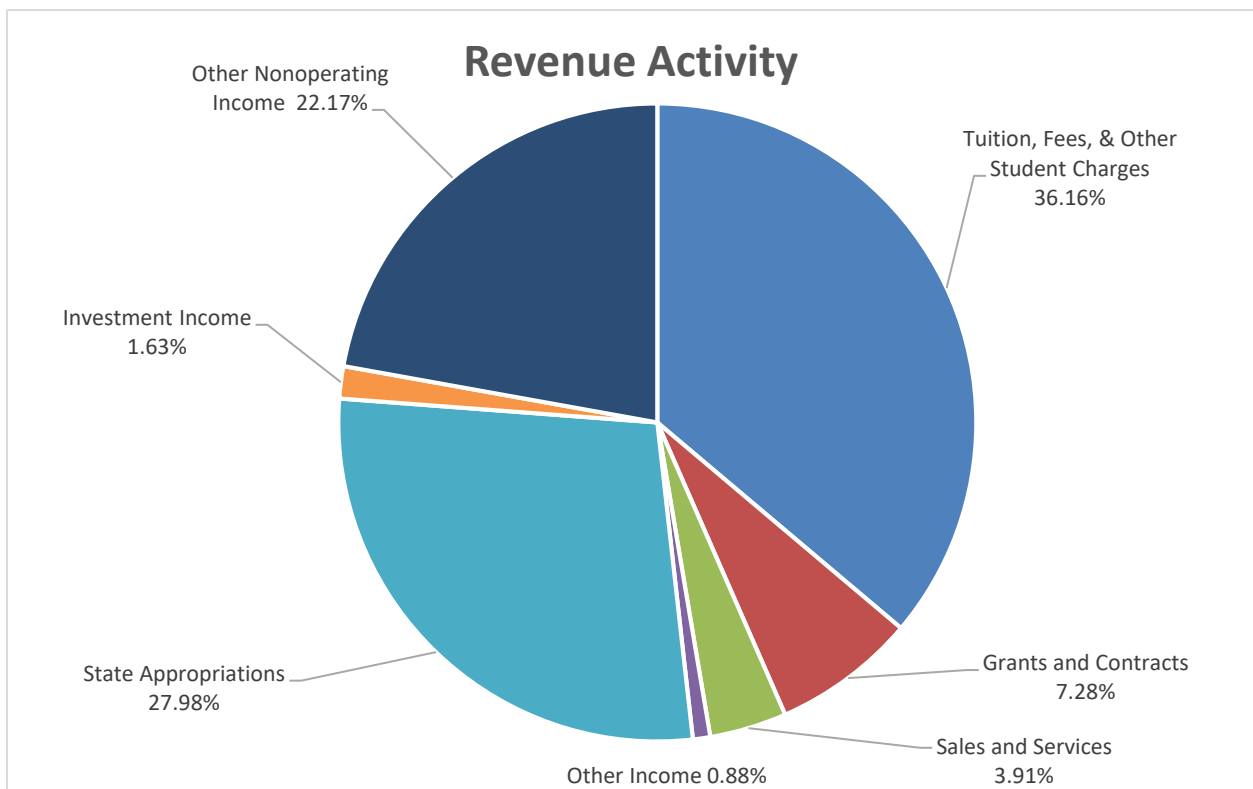
Pell Grants and certain other grants are considered nonexchange transactions and are reflected as nonoperating revenue. The federal grants portion of nonoperating other grants revenue experienced a 2.6 percent decrease. The decrease in 2018 follows a similar decrease in 2017 of 7.6 percent in the federal grant portion of nonoperating other grants revenue. Income from federal aid programs such as Pell, SEOG, and Veteran's Benefits amounted to \$7.8 million in 2018 as compared with \$8.0 million in 2017 and \$8.7 million in 2016. Nonoperating grants revenue represents 19.9 percent of the University's total revenue in 2018, down from 20.3 percent in 2017, and 22.8 percent in 2016.

Shawnee State University

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

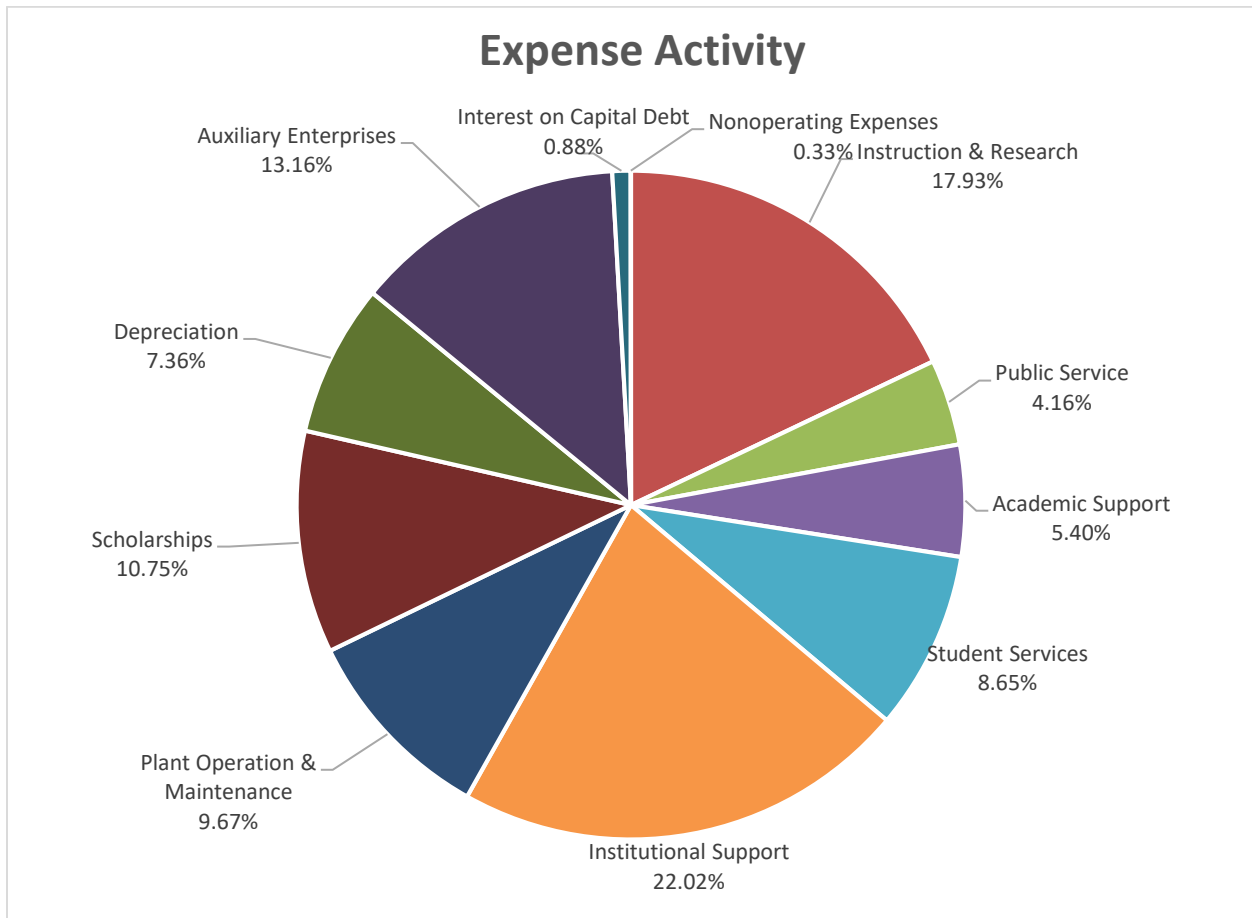
Capital appropriations decreased to \$1,268,512 from \$3,463,679 in 2017 as fewer state capital projects were initiated in 2018. The increase to \$3,463,679 in 2017 from \$421,302 in 2016 reflect the increased state capital funding received to support the startup costs of various capital projects during those years. These projects include the STEM building projects and major renovations to the Health Science building on campus.

The following graphs illustrate Shawnee State University's revenue and expense activity for the fiscal year ended June 30, 2018.



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, 2018. A comparison of cash sources and uses during fiscal years 2018, 2017, and 2016 is presented below:

	2018	2017	2016
Cash (Used in) Provided By			
Operating activities	\$ (28,221,043)	\$ (28,451,678)	\$ (30,518,913)
Noncapital financing activities	26,153,453	28,677,400	30,461,795
Capital and related financing activities	(3,802,663)	4,938,533	(1,935,434)
Investment activities	6,622,791	(5,851,901)	2,180,349
Net (decrease) increase in cash and cash equivalents	752,538	(687,646)	187,797
Cash and Cash Equivalents			
Beginning of the year	394,220	1,081,866	894,069
End of the year	<u>\$ 1,146,758</u>	<u>\$ 394,220</u>	<u>\$ 1,081,866</u>

Shawnee State University

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

Cash and cash equivalents increased by \$752,538 as a result of a combination of institution-wide spending-constraint strategies and the liquidation of investment holdings to supplement the University's cash needs during these years.

Capital Assets and Debt Administration

At the end of fiscal year 2018, the University held \$81,463,970 in net capital assets. This reflects an increase of \$13,175 in net capital assets from 2017. The minor increase was due to depreciation expense and the loss on disposals of capital assets substantially equaling the cost of construction projects completed during 2018.

Capital assets - Net of depreciation at June 30:

	2018	2017	2016
Land	\$ 8,003,370	\$ 8,003,370	\$ 8,003,370
Land improvements	6,928,632	6,928,632	6,928,632
Buildings and improvements	58,354,853	59,619,149	62,451,322
Equipment	2,412,502	1,974,114	1,763,004
Library books	232,737	280,551	309,007
Construction in progress	5,531,876	4,644,979	401,795
Totals	<u>\$ 81,463,970</u>	<u>\$ 81,450,795</u>	<u>\$ 79,857,130</u>

Debt Administration

In fiscal year 2017, the University issued \$20,845,000 of General Receipts Bonds, Bond Series 2016. The net proceeds of the Series 2016 bonds were designated for various purposes. Bond proceeds of about \$7,200,000 were allocated to pay for the costs of various improvements to the University's campus. Those improvements include the renovation and rehabilitation of existing facilities for athletics and student recreation, health and fitness, student housing renovations, and other campus improvements. Secondly, the funds were utilized to advance refund all of the University's outstanding General Receipts Bonds, Series 2007. The Series 2007 Bonds were issued on June 5, 2007 for the purpose of paying the costs to renovate and construct a new addition to its University Center and for refunding of prior bond issues. Lastly, the remaining Series 2016 bond proceeds were used to pay costs of issuance of the 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.

Shawnee State University

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

Outstanding debt at year end:

	2018	2017	2016
Capital lease payable - 3.16%	\$ 321,617	\$ 633,259	\$ 935,234
General revenue bonds payable - 2% to 4%	20,220,000	20,845,000	13,875,000
Total debt	\$ 20,541,617	\$ 21,478,259	\$ 14,810,234

Current Financial Issues and Concerns

As identified in the previous sections of management's discussion and analysis (MD&A), the University's fiscal year 2018 net position reflects a decrease of nearly \$5.8 million from fiscal year 2017 due to the convergence of multiple factors, including: a significant decline in fall 2017 enrollment, a substantial decrease in state capital appropriations, and decreases in both grants (federal, state & local) and investment income. The substantial GASB 75 and GASB 68 pension and other postemployment benefit (OPEB) adjustments that were realized this fiscal year are adjustments that the University does not control.

The University is taking a dual approach in its response to the AY2017-18 enrollment decline that involves expanded austerity efforts and more strategic revenue generation initiatives.

Austerity efforts continue on the part of the University as greater emphasis is being placed on leaders to realize campus-wide spending reductions in non-compensation and compensation expenditures. Additionally, the university's major system upgrade that began in 2016 to modernize its entire business (ERP) systems resulted in process and manpower resource challenges. A considerable amount of effort and cost was required in order to transition to the new cloud system. The multi-year implementation plan is being followed and key functional leaders are beginning to be able to utilize the systems new features. Concentrated effort in the coming year is required to realize the system's full capabilities in the areas of: HCM, payroll, procurement, financials, and budgetary planning and management. The allocation of dedicated resources to this effort will continue through 2020. Ultimately, these technologies and advanced software tools will result in substantially improved productivity in key functional administrative areas.

Effective oversight of academic programs is underway that includes comprehensive evaluations by academic administrators and faculty of low-enrolled courses resulting in the elimination of some programs and allocation of resources to expand high quality academic programs.

Compensation costs are controlled through attrition with each vacated position scrutinized for replacement that considers whether the position is needed as well as what skills, qualifications, experience is needed for succession and the future work environment.

Shawnee State University

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

Revenue-generation efforts that are underway incorporate more expansive marketing and recruitment strategies to increase both on-ground and online course and program enrollments. A number of strategies have been implemented that are expressly focused upon retention and student success efforts. These include focused advising techniques, specialized software tools for key service areas, a summer bridge program to support students with multiple academic development needs, increased athletic programs to encourage greater engagement, and newer sport venues such as e-gaming that complements the university's academic digital gaming degrees.

Finally, Shawnee State continues to upgrade its facilities to meet student expectations and that support progressive pedagogical techniques for faculty to be more effective and to encourage and promote increased faculty-student collaboration.

Shawnee State University

Statement of Net Position University

	June 30	
	2018	2017
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	1,146,758	394,220
Receivables:		
Accounts (net of allowance for doubtful accounts of \$2,474,856 in 2018 and \$2,754,694 in 2017)	4,809,228	4,806,900
Notes receivable - Net of allowance of approximately \$948,000 at June 30, 2012 and 2011 (Note 3)		
Notes	80,852	81,498
Amounts due from primary government	480,891	136,126
Interest receivable	28,650	26,279
Inventory	32,211	36,036
Unearned charges		
Prepaid items	139,087	323,331
Total current assets	6,717,677	5,804,390
Noncurrent Assets		
Restricted investments	5,521,217	7,111,745
Investments	13,835,674	17,958,495
Unearned charges		
Capital assets - Net	81,463,970	81,450,795
Total noncurrent assets	100,820,861	106,521,035
Total assets	107,538,538	112,325,425
Deferred Outflows of Resources		
Pension costs	10,452,614	12,939,645
OPEB costs	801,049	-
Total Deferred Outflows of Resources	11,253,663	12,939,645
Total Assets and Deferred Outflows of Resources	\$ 118,792,201	\$ 125,265,070

Shawnee State University

Statement of Net Position (Continued) University

	June 30	
	2018	2017
Liabilities, Deferred Inflows of Resources, and Net Position		
Current Liabilities		
Accounts payable	\$ 1,993,457	\$ 907,754
Accrued wages and benefits	3,629,775	3,404,214
Compensated absences payable	180,693	187,571
Capital lease payable	321,617	311,642
Bonds payable	645,000	625,000
Accrued interest payable	67,151	73,100
Unearned revenue	1,831,218	1,660,051
Deposits held by and due to others	130,619	136,566
Total current liabilities	8,799,530	7,305,898
Noncurrent Liabilities		
Compensated absences payable	1,626,241	1,688,137
Unearned revenue	583,541	633,169
Net pension liability	36,489,534	55,520,927
Net OPEB liability	11,774,361	-
Capital lease payable	-	321,617
Bonds payable	19,575,000	20,220,000
Total noncurrent liabilities	70,048,677	78,383,850
Total liabilities	78,848,207	85,689,748
Deferred Inflows of Resources		
Service concession agreements	120,000	240,000
Pension costs	6,497,004	1,266,521
OPEB costs	1,078,374	-
Bond refunding	512,534	544,567
Total deferred inflows of resources	8,207,912	2,051,088
Net Position		
Net investment in capital assets	66,291,426	67,208,092
Nonexpendable		
Restricted:		
Expendable		
Loans	112,902	112,899
Other	60,598	55,647
Unrestricted	(34,728,844)	(29,852,404)
Total net position	31,736,082	37,524,234
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 118,792,201	\$ 125,265,070

Shawnee State University

Statement of Net Assets Development Foundation

	June 30	
	2018	2017
Assets		
Cash and cash equivalents	\$ 790,723	\$ 778,340
Investments	19,030,577	18,323,910
Contributions receivable - Net	393,842	441,137
Lease receivable from related party	24,175	26,345
Beneficial interest in trusts held by others	913,594	1,025,037
Cash surrender value of life insurance	271,287	250,223
Other assets	74,525	92,455
Net settlement cost		
Net property and equipment	10,010,618	11,204,572
Total assets	<u>\$ 31,509,341</u>	<u>\$ 32,142,019</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 24,906	\$ 91,682
Accrued real estate tax	67,860	70,490
Deposits held and due to others	205,942	191,063
Annuity payment liability	193,626	198,486
Note payable	4,265,792	4,024,546
Total liabilities	4,758,126	4,576,267
Net Assets		
Unrestricted	6,812,336	8,917,933
Temporarily restricted	9,215,495	8,338,042
Permanently restricted	10,723,384	10,309,777
Total net assets	<u>26,751,215</u>	<u>27,565,752</u>
Total liabilities and net assets	<u>\$ 31,509,341</u>	<u>\$ 32,142,019</u>

Shawnee State University

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

	Year Ended June 30	
	2018	2017
Operating Revenue		
Student tuition and fees (net of scholarship allowances of \$10,671,147 in 2018 and \$10,521,140 in 2017)	\$ 20,433,024	\$ 22,116,470
Federal grants and contracts	2,087,596	2,180,014
State grants and contracts	1,342,818	609,042
Local grants and contracts	377,466	372,238
Private gifts, grants, and contracts	304,970	692,931
Sales and services	2,207,409	1,969,224
Miscellaneous	496,926	331,241
Total operating revenue	27,250,209	28,271,160
Operating Expenses		
Education and general:		
Instruction and departmental research	8,890,534	21,416,995
Public service	2,060,195	2,565,655
Academic support	2,677,238	3,050,404
Student services	4,286,628	4,441,226
Institutional support	10,916,284	11,420,704
Operation and maintenance of plant	4,793,929	5,260,516
Scholarships and fellowships	5,330,743	6,083,506
Depreciation expense	3,650,888	3,607,092
Auxiliary enterprises	6,525,600	6,640,647
Total operating expenses	49,132,039	64,486,745
Operating Loss	(21,881,830)	(36,215,585)
Nonoperating Revenue (Expenses)		
State appropriations	15,811,797	15,811,534
Federal, state, and local grants and contracts	10,287,480	11,347,138
Private grants and contracts	973,215	1,219,303
Investment income	922,233	1,790,009
Interest on capital asset-related debt	(437,761)	(1,081,197)
Loss on disposal of capital assets	(7,350)	(214,171)
Net nonoperating revenue	27,549,614	28,872,616
Change in Net Position Before Capital Appropriations	5,667,784	(7,342,969)
Other Revenue - Capital appropriations	1,268,512	3,463,679
(Decrease) Increase in Net Position	6,936,296	(3,879,290)
Net Position - Beginning of year	37,524,234	41,403,524
Adjustment for change in Accounting Principle (Note 2)	(12,724,448)	-
Net Position - Beginning of year, as restated	24,799,786	-
Net Position - End of year	\$ 31,736,082	\$ 37,524,234

Shawnee State University

Statement of Activities Development Foundation Year Ended June 30, 2018 (with comparative totals for 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2018	Total 2017
Revenue and Other Support					
Contributions	\$ 102,801	\$ 658,668	\$ 378,353	\$ 1,139,822	\$ 1,186,866
Investment income - Net	31,629	1,363,612	-	1,395,241	2,070,335
Change in value of split-interest agreements	(133,216)	(30,511)	35,254	(128,473)	110,506
Losses for uncollectible contributions	-	-	-	-	(15,142)
Rental income	418,381	-	-	418,381	426,903
Net assets released from restrictions	<u>1,891,002</u>	<u>(1,891,002)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue and other support	2,310,597	100,767	413,607	2,824,971	3,779,468
Expenses and Losses					
Scholarships and other student aid	386,636	-	-	386,636	426,155
Institutional support	552,873	-	-	552,873	831,502
Guest speakers and lecturers	16,184	-	-	16,184	11,548
Management and general expenses	487,405	-	-	487,405	410,271
Rental expenses	<u>568,921</u>	<u>-</u>	<u>-</u>	<u>568,921</u>	<u>635,680</u>
Total expenses	<u>2,012,019</u>	<u>-</u>	<u>-</u>	<u>2,012,019</u>	<u>2,315,156</u>
Losses					
Loss on sale of assets	<u>1,627,489</u>	<u>-</u>	<u>-</u>	<u>1,627,489</u>	<u>-</u>
Total expenses and losses	<u>3,639,508</u>	<u>-</u>	<u>-</u>	<u>3,639,508</u>	<u>-</u>
Change in Net Assets	(1,328,911)	100,767	413,607	(814,537)	1,464,312
Net Asset Transfer	<u>(776,686)</u>	<u>776,686</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets - Beginning of year	<u>8,917,933</u>	<u>8,338,042</u>	<u>10,309,777</u>	<u>27,565,752</u>	<u>26,101,440</u>
Net Assets - End of year	<u>\$ 6,812,336</u>	<u>\$ 9,215,495</u>	<u>\$ 10,723,384</u>	<u>\$ 26,751,215</u>	<u>\$ 27,565,752</u>

Shawnee State University

Statement of Activities (Continued) Development Foundation Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Other Support				
Contributions	\$ 595,021	\$ 525,251	\$ 66,594	\$ 1,186,866
Investment income - Net	200,354	1,869,981	-	2,070,335
Change in value of split-interest agreements	47,292	14,574	48,640	110,506
Losses for uncollectible contributions	(5,085)	(5,057)	(5,000)	(15,142)
Rental income	426,903	-	-	426,903
Net assets released from restrictions	1,849,737	(1,849,737)	-	-
Total revenue and other support	3,114,222	555,012	110,234	3,779,468
Expenses and Losses				
Scholarships and other student aid	426,155	-	-	426,155
Institutional support	831,502	-	-	831,502
Guest speakers and lecturers	11,548	-	-	11,548
Management and general expenses	410,271	-	-	410,271
Rental expenses	635,680	-	-	635,680
Total expenses and losses	2,315,156	-	-	2,315,156
Change in Net Assets	799,066	555,012	110,234	1,464,312
Net Assets - Beginning of year	8,118,867	7,783,030	10,199,543	26,101,440
Net Assets - End of year	\$ 8,917,933	\$ 8,338,042	\$ 10,309,777	\$ 27,565,752

Shawnee State University

Statement of Cash Flows University

	Year Ended June 30	
	2018	2017
Cash Flows from Operating Activities		
Cash received from tuition, fees, and other student charges	\$ 20,618,331	\$ 22,692,017
Cash received from gifts, grants, and contracts	4,373,900	4,124,361
Cash received from sales and services	2,140,666	1,949,256
Cash received from miscellaneous services	496,926	331,241
Cash payments to suppliers for goods and services	(13,696,422)	(17,344,394)
Cash payments to employees for services	(28,863,706)	(25,922,738)
Cash payments for employee benefits	(7,959,995)	(8,197,915)
Cash payments for scholarships and fellowships	(5,330,743)	(6,083,506)
Net cash used in operating activities	(28,221,043)	(28,451,678)
Cash Flows from Noncapital Financing Activities		
State appropriations	15,811,797	15,811,534
Federal fiscal stabilization funds		
Nonexchange gifts, grants, and contracts	10,689,078	12,850,577
Federal direct student loan program receipts	18,042,932	20,184,323
Federal direct student loan program disbursements	(18,384,827)	(20,171,887)
Net cash from agency transactions	(5,527)	2,853
Net cash provided by noncapital financing activities	26,153,453	28,677,400
Cash Flows from Capital and Related Financing Activities		
Capital appropriations	1,051,006	3,420,760
Proceeds from capital debt	-	21,419,729
Payments for capital acquisitions	(3,201,982)	(4,907,632)
Principal payments	(936,642)	(13,656,976)
Interest payments	(715,045)	(1,337,348)
Net cash provided by (used in) capital and related financing activities	(3,802,663)	4,938,533
Cash Flows from Investing Activities		
Interest on investments	919,862	1,449,347
Proceeds for sales and maturities of investments	6,591,736	1,962,773
Purchases of securities	(888,807)	(9,264,021)
Net cash (used in) provided by investing activities	6,622,791	(5,851,901)
Net Change in Cash and Cash Equivalents	752,538	(687,646)
Cash and Cash Equivalents - Beginning of year	394,220	1,081,866
Cash and Cash Equivalents - End of year	\$ 1,146,758	\$ 394,220

Shawnee State University

Statement of Cash Flows (Continued) University

	Year Ended June 30	
	2018	2017
Reconciliation of Operating Loss to Net Cash from		
Operating Activities		
Operating loss	\$ (21,881,830)	\$ (36,215,585)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation expense	3,650,888	3,607,092
Humanst521 BT	-	-
Changes in operating assets and liabilities and deferred outflows of resources and deferred inflows of resources which provided (used) cash:		
Accounts receivable	639,913	403,981
Notes receivable	646	2,174
Prepaid items	184,244	47,576
Inventory	3,825	4,388
Accounts payable	889,587	(88,837)
Accrued wages and benefits	225,560	(229,759)
Compensated absences payable	(68,774)	(48,854)
Unearned revenue	121,539	419,559
Net pension liability	(19,031,393)	10,575,739
Net OPEB liability	(994,174)	-
Deferred outflows of resources - Net pension expense	2,487,031	(4,834,911)
Deferred outflows of resources - Net OPEB pension expense	(756,962)	-
Deferred inflows of resources - Net pension expense	5,230,483	(2,094,241)
Deferred inflows of resources - Net OPEB expense	1,078,374	-
Net cash used in operating activities	<u>\$ (28,221,043)</u>	<u>\$ (28,451,678)</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 component unit 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 nonvoting 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*, GASB Statement No. 61, *The Financial Reporting Entity*, and GASB Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14 - Omnibus, - 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.

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.

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

Note 1 - Reporting Entity (Continued)

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 the 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, 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.

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

Note 2 - Summary of Significant Accounting Policies (Continued)

Restricted Investments – Amounts represent the unspent bond proceeds invested in eligible securities as defined by the Series 2016 Bond agreements and are restricted for bond related capital projects.

Reclassifications – Amounts previously classified as short-term investments have been reclassified to noncurrent assets to conform to current year presentation. The amount of the reclassification for fiscal year 2017 was \$7,111,745. There was no effect on net position as a result of this reclassification.

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 an investment management agreement with TIAA, as permitted by state statute. The agreement allows (within statute limits) investment in both debt and equity instruments. All investments are carried at fair value.

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, 2018 and 2017, respectively.

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.

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:

Note 2 - Summary of Significant Accounting Policies (Continued)

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. The University recorded \$226,278 and \$115,632 of capitalized interest as of June 30, 2018 and 2017, respectively.

Deferred Outflows of Resources - In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future periods and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The University reports deferred outflows of resources for certain pension-related and OPEB-related amounts, such as change in expected and actual experience, changes in assumptions, and certain contributions made to the plan subsequent to the measurement date. More detailed information can be found in Note 13.

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 purposes 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 the State Teachers Retirement System of Ohio (STRS) Pension Plan (STRS/OPERS) and additions to/deductions from STRS'/OPERS' fiduciary net position have been determined on the same basis as they are reported by STRS/OPERS. STRS/OPERS uses 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.

Other Postemployment Benefit Costs - For purposes of measuring the net other postemployment benefit (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Ohio Public Employees Retirement System (OPERS) and the State Teachers Retirement System of Ohio (STRS) Pension Plan (STRS/OPERS) and additions to/deductions from STRS'/OPERS' fiduciary net position have been determined on the same basis as they are reported by STRS/OPERS. STRS/OPERS uses the economic resources measurement focus and the full accrual basis of accounting. For this purpose, STRS/OPERS recognizes benefit payments 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, deferred inflows of resources, 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 reports deferred inflows of resources for certain pension-related and OPEB-related amounts, such as the difference between projected and actual earnings of the plan's investments. More detailed information can be found in Note 13.

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.

Note 2 - Summary of Significant Accounting Policies (Continued)

- **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.

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 nonexchange 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

Note 2 - Summary of Significant Accounting Policies (Continued)

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.

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 \$120,000 and \$240,000 at June 30, 2018 and 2017, 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.

Adoption of New Accounting Pronouncement – In fiscal year 2018, the provisions of the following GASB Statement became effective:

Accounting for Postemployment Benefits Other Than Pensions - The GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which requires governments providing other postemployment benefit (OPEB) plans to recognize their unfunded OPEB obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of OPEB benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). In accordance with the statements, the University has reported a change in accounting principle adjustment to unrestricted net position of \$(12,724,448), which is the

Note 2 - Summary of Significant Accounting Policies (Continued)

net amount of the net OPEB liability and related deferred outflows of resources as of July 1, 2017. June 30, 2017 amounts have not been restated to reflect the impact of GASB No. 75 because the information is not available to calculate the impact on OPEB expense for the fiscal year ended June 30, 2017.

Upcoming Accounting Pronouncements - As of June 30, 2018, the GASB has issued the following statements not yet implemented by the University:

- **Accounting for Certain Asset Retirement Obligations** - In November 2016, the Governmental Accounting Standards Board issued GASB Statement No. 83, *Certain Asset Retirement Obligations*, which establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The University is currently evaluating the impact of this standard. The provisions of this statement are effective for the University's financial statements for the year ending June 30, 2019.
- **Accounting for Fiduciary Activities** - In January 2017, the Governmental Accounting Standards Board issued GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of governments and improves guidance for accounting and financial reporting related to how these activities should be reported. The University is currently evaluating the impact of this standard, specifically related to holding assets for other organizations. The provisions of this statement are effective for the University's financial statements for the year ending June 30, 2020.
- **Accounting for Leases** - In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases*, which increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The new lease standard is not expected to have a significant effect on the University's financial statements. The provisions of this statement are effective for the University's financial statements for the year ending June 30, 2021.

Note 2 - Summary of Significant Accounting Policies (Continued)

- **Accounting for Interest Cost Incurred Before the End of a Construction Period** – GASB Statement No. 89, establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The statement is effective for fiscal years beginning after December 15, 2019. The impact on the University is being reviewed.
- **Majority Equity Interests-an amendment of GASB Statements No. 14 and No. 61** – GASB Statement No. 90, establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. The statement is effective for fiscal years beginning after December 15, 2018. The impact on the University is being reviewed.

Note 3 - Deposits and Investments

Deposits - At June 30, 2018, the carrying amount of the University's deposits (which consist of cash, excluding cash on hand of \$3,278, deposits held by trustee, and investments) was \$1,143,480 and the bank balance was \$1,491,486. 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, 2017, the carrying amount of the University's deposits, (which consist of cash, excluding cash on hand of \$3,185, deposits held by trustee, and investments) was \$391,035 and the bank balance was \$383,025.

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, 2018, the University had the following investments and maturities using the segmented time distribution method:

Shawnee State University

Notes to Financial Statements June 30, 2018 and 2017

Investment Type	Value	Investment Maturities (in years)		
		<1	1-5	More than 5
U.S. gov. and agency bonds	\$ 1,619,760	\$ -	\$ 1,111,277	\$ 508,483
Corporate bonds and notes	1,395,060	-	804,078	590,982
Fixed-income mutual funds	1,546,969	1,546,969	-	-
Money market funds	8,762,842	8,762,842	-	-
S TAR Ohio funds	187,305	187,305	-	-
Total	13,511,936	\$ 10,497,116	\$ 1,915,355	\$ 1,099,465
Equities and equity funds	5,844,955			
Total	\$ 19,356,891			

As of June 30, 2017, the University had the following investments and maturities using the segmented time distribution method:

Investment Type	Value	Investment Maturities (in years)		
		<1	1-5	More than 5
U.S. gov. and agency bonds	\$ 2,803,052	\$ -	\$ 2,000,333	\$ 802,719
Corporate bonds and notes	1,680,658	-	917,007	763,651
Foreign corporate bonds	25,639	-	25,639	-
Fixed-income mutual funds	2,212,892	-	2,212,892	-
Money market funds	8,456,691	8,456,691	-	-
S TAR Ohio funds	434,413	434,413	-	-
Total	15,613,345	\$ 8,891,104	\$ 5,155,871	\$ 1,566,370
Equities and equity funds	9,456,895			
Total	\$ 25,070,240			

Investments at June 30, 2018 and 2017 are shown in the statement of net position as noncurrent in the amount of \$19,356,891 and \$25,070,240, 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.

Note 3 - Deposits and Investments (Continued)

As of June 30, 2018 and 2017, the University had the following investments and quality ratings:

Investment Type	Rating	2018 Fair Value	2017 Fair Value
U.S. govt. and agency bonds	AAA	\$ 47,770	\$ -
	AA+	1,571,990	2,803,052
Corporate bonds and notes	AAA	-	111,303
	AA	310,280	176,943
	A	540,041	614,116
	BBB	544,739	778,296
Foreign corporate bonds	A	-	6,174
	BBB	-	19,465
Fixed-income mutual funds	AAA	1,546,969	2,212,892
Money market funds	AAA	5,561,388	7,151,582
	AA+	3,201,454	1,305,109
STAR Ohio funds	AAA	187,305	434,413
		\$ 13,511,936	\$ 15,613,345

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.

Note 4 - Fair Value Measurements (Continued)

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 assets with recurring fair value measurements as of June 30, 2018 and 2017:

Assets Measured at Fair Value on a Recurring Basis

	Balance at June 30, 2018	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. gov. and agency bonds	\$ 1,619,760	\$ 1,353,284	\$ 266,476	\$ -
Corporate bonds and notes	1,395,060	-	1,395,060	-
Total debt securities	3,014,820	1,353,284	1,661,536	-
Mutual funds:				
Fixed-income mutual funds	1,546,969	1,546,969	-	-
Equity mutual funds	5,844,955	5,844,955	-	-
Money market mutual funds	8,762,842	8,762,842	-	-
Total mutual funds	16,154,766	16,154,766	-	-
Total investments by fair value level	\$ 19,169,586	\$ 17,508,050	\$ 1,661,536	\$ -

	Balance at June 30, 2017	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. gov. and agency bonds	\$ 2,803,052	\$ 2,274,334	\$ 528,718	\$ -
Corporate bonds and notes	1,680,658	-	1,680,658	-
Foreign corporate bonds	25,639	-	25,639	-
Total debt securities	4,509,349	2,274,334	2,235,015	-
Mutual funds:				
Fixed-income mutual funds	2,212,892	2,212,892	-	-
Equity mutual funds	9,456,895	9,456,895	-	-
Money market mutual funds	8,456,691	8,456,691	-	-
Total mutual funds	20,126,478	20,126,478	-	-
Total investments by fair value level	\$ 24,635,827	\$ 22,400,812	\$ 2,235,015	\$ -

Note 4 - Fair Value Measurements (Continued)

Short-term investment and investments on the statement of net position at June 30, 2018 and 2017 include investments in STAR Ohio of \$187,305 and \$434,413, 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.

Note 5 - Accounts Receivable

The composition of accounts receivable at June 30, 2018 and 2017 is summarized as follows:

	2018	2017
Student tuition and fees	\$ 5,346,081	\$ 6,195,364
Grants and contracts	1,561,024	1,288,530
Other	376,979	77,700
Total accounts receivable	7,284,084	7,561,594
Less allowance for doubtful accounts	(2,474,856)	(2,754,694)
Accounts receivable - Net	\$ 4,809,228	\$ 4,806,900

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2018 was as follows:

	Balance July 1, 2017	Reclass and Additions	Reductions	Balance June 30, 2018
Capital assets not being depreciated:				
Land	\$ 8,003,370	\$ -	\$ -	\$ 8,003,370
Land improvements	6,928,632	-	-	6,928,632
Construction in progress	4,644,979	3,407,266	(2,520,369)	5,531,876
Total capital assets not being depreciated	19,576,981	3,407,266	(2,520,369)	20,463,878
Capital assets being depreciated:				
Buildings and improvements	105,944,252	1,747,206	-	107,691,458
Equipment	14,606,417	1,027,948	(203,547)	15,430,818
Library books	4,193,086	9,362	(166,959)	4,035,489
Total capital assets being depreciated	124,743,755	2,784,516	(370,506)	127,157,765
Less accumulated depreciation:				
Buildings and improvements	(46,325,103)	(3,011,502)	-	(49,336,605)
Equipment	(12,632,303)	(582,210)	196,197	(13,018,316)
Library books	(3,912,535)	(57,176)	166,959	(3,802,752)
Total accumulated depreciation	(62,869,941)	(3,650,888)	363,156	(66,157,673)
Total capital assets being depreciated - Net	61,873,814	(866,372)	(7,350)	61,000,092
Capital assets - Net	\$ 81,450,795	\$ 2,540,894	\$ (2,527,719)	\$ 81,463,970

Note 6 - Capital Assets (Continued)

Capital asset activity for the fiscal year ended June 30, 2017 was as follows:

	Balance July 1, 2016	Reclass and Additions	Reductions	Balance June 30, 2017
Capital assets not being depreciated:				
Land	\$ 8,003,370	\$ -	\$ -	\$ 8,003,370
Land improvements	6,928,632	-	-	6,928,632
Construction in progress	401,795	4,389,067	(145,883)	4,644,979
Total capital assets not being depreciated	15,333,797	4,389,067	(145,883)	19,576,981
Capital assets being depreciated:				
Buildings and improvements	105,824,087	287,985	(167,820)	105,944,252
Equipment	13,935,436	801,470	(130,489)	14,606,417
Library books	4,192,356	36,406	(35,676)	4,193,086
Total capital assets being depreciated	123,951,879	1,125,861	(333,985)	124,743,755
Less accumulated depreciation:				
Buildings and improvements	(43,372,765)	(2,972,476)	20,138	(46,325,103)
Equipment	(12,172,432)	(569,754)	109,883	(12,632,303)
Library books	(3,883,349)	(64,862)	35,676	(3,912,535)
Total accumulated depreciation	(59,428,546)	(3,607,092)	165,697	(62,869,941)
Total capital assets being depreciated - Net	64,523,333	(2,481,231)	(168,288)	61,873,814
Capital assets - Net	\$ 79,857,130	\$ 1,907,836	\$ (314,171)	\$ 81,450,795

As of June 30, 2018, the total of outstanding commitments for capital projects was \$3,164,122. This amount consists of \$2,036,166 for Capital Projects funded by the State of Ohio and \$1,127,956 for Capital Projects funded by the University and Bond Series 2016 funds.

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 accrue 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

Note 7 - Compensated Absences (Continued)

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.

Note 8 - Long-term Obligations

The changes in the University's long-term obligations during fiscal year 2018 were as follows:

	Principal Outstanding			Principal Outstanding	
	July 1, 2017	Additions	Deductions	June 30, 2018	Current Portion
General Receipt Bonds, Series 2016	\$ 20,845,000	\$ -	\$ 625,000	\$ 20,220,000	\$ 645,000
Unamortized bond premium	624,970	-	16,799	608,171	-
Capital lease	633,259	-	311,642	321,617	321,617
Compensated absences	1,875,708	181,060	249,834	1,806,934	180,693
	<u>\$ 23,978,937</u>	<u>\$ 181,060</u>	<u>\$ 1,203,275</u>	<u>\$ 22,956,722</u>	<u>\$ 1,147,310</u>
Total long-term liabilities	<u>\$ 23,978,937</u>	<u>\$ 181,060</u>	<u>\$ 1,203,275</u>	<u>\$ 22,956,722</u>	<u>\$ 1,147,310</u>

The changes in the University's long-term obligations during fiscal year 2017 were as follows:

	Principal Outstanding			Principal Outstanding	
	July 1, 2016	Additions	Deductions	June 30, 2017	Current Portion
General Receipt Bonds, Series 2007	\$ 13,875,000	\$ -	\$ 13,875,000	\$ -	\$ -
General Receipt Bonds, Series 2016	-	20,845,000	-	20,845,000	625,000
Unamortized bond premium	576,601	636,974	588,605	624,970	-
Capital lease	935,234	-	301,975	633,259	311,642
Compensated absences	1,924,562	196,455	245,309	1,875,708	187,571
	<u>\$ 17,311,397</u>	<u>\$ 21,678,429</u>	<u>\$ 15,010,889</u>	<u>\$ 23,978,937</u>	<u>\$ 1,124,213</u>
Total long-term liabilities	<u>\$ 17,311,397</u>	<u>\$ 21,678,429</u>	<u>\$ 15,010,889</u>	<u>\$ 23,978,937</u>	<u>\$ 1,124,213</u>

In fiscal year 2017, the University issued \$20,845,000 of General Receipts Bonds, Series 2016, dated November 29, 2016, maturing at various dates through June 1, 2041 at coupon rates ranging from 2.0 percent to 4.0 percent. The net proceeds of the Series 2016 Bonds will be used to first pay for the costs of various improvements to the University's campus. Those improvements include the renovation and rehabilitation of existing facilities for athletics and student recreation, health and fitness, student housing renovations, and other

Note 8 - Long-term Obligations (Continued)

campus improvements (collectively, the “Project”). Secondly, the funds will be utilized to advance refund all of the University’s outstanding General Receipts Bonds, Series 2007, dated June 5, 2007 (the “Series 2007 Bonds”) and finally to pay costs of issuance of the Series 2016 Bonds.

The University advance refunded the 2007 Series bonds to reduce its total debt service payments over the next 18 years by almost \$2.3 million and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1.8 million.

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.

The interest expense for fiscal years 2018 and 2017 was \$437,761 and \$1,081,197, respectively.

Note 8 - Long-term Obligations (Continued)

Principal and interest amounts due within each of the next five years and thereafter on the Series 2016 bond obligations outstanding at June 30, 2018 are as follows:

Years Ending June 30	Principal	Interest	Total
2019	\$ 645,000	\$ 682,275	\$ 1,327,275
2020	655,000	669,375	1,324,375
2021	915,000	649,725	1,564,725
2022	945,000	622,275	1,567,275
2023	970,000	593,925	1,563,925
2024-2028	5,265,000	2,551,175	7,816,175
2029-2033	6,395,000	1,440,225	7,835,225
2034-2038	3,050,000	489,950	3,539,950
2039-2041	<u>1,380,000</u>	<u>97,650</u>	<u>1,477,650</u>
Total	<u>\$ 20,220,000</u>	<u>\$ 7,796,575</u>	<u>\$ 28,016,575</u>

The final capital lease principal payment of \$321,617 and interest payment of \$10,294 are due on October 1, 2018.

Note 9 - Leases

The University's operating leases consist of real property and movable equipment that expire in fiscal year 2029. Total expenditures during 2018 and 2017 under operating leases amounted to approximately \$85,000 and \$107,000, 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, 2018.

Note 10 - Contingencies (Continued)

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 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.

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

Note 11 - State Support (Continued)

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 direct appropriations from the State to fund capital improvements. These appropriations are reflected as appropriation revenue on the University's financial statements. 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 law enforcement division of 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 covers substantially all employees of the University. Each system has multiple retirement plan options available to its members, with three options in STRS and OPERS. Each system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The systems also each provide post-employment health care benefits (including Medicare B premiums) to retirees and beneficiaries who elect to receive those benefits.

Each retirement system issues a publicly available financial report that includes financial statements and required supplemental information for the pension and postemployment 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

Note 13 - Retirement Plans (Continued)

Contributions - State retirement law requires contributions by covered employees and their employers, and Chapter 3307 of the Ohio Revised Code (ORC) limits the maximum rate of contributions. The retirement boards of the systems individually set contribution 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's 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 set at the maximums authorized by the ORC. The plans' 2018 employer and member contribution rates on covered payroll to each system are:

	Employer Contribution Rate			Member
	Postretirement			Contribution Rate
	Pension	Healthcare	Total	Total
STRS	14.00%	0.00%	14.00%	14.00%
OPERS - State/Local	13.00%	1.00%	14.00%	10.00%
OPERS - Law Enforcement	17.10%	1.00%	18.10%	13.00%

The plans' 2017 employer and member contribution rates on covered payroll to each system are:

	Employer Contribution Rate			Member
	Postretirement			Contribution Rate
	Pension	Healthcare	Total	Total
STRS (beginning 7/1/16)	14.00%	0.00%	14.00%	14.00%
OPERS - State/Local (through 12/31/16)	12.00%	2.00%	14.00%	10.00%
OPERS - State/Local (beginning 1/1/17)	13.00%	1.00%	14.00%	10.00%
OPERS - Law Enforcement (through 12/31/16)	16.10%	2.00%	18.10%	13.00%
OPERS - Law Enforcement (beginning 1/1/17)	17.10%	1.00%	18.10%	13.00%

Note 13 - Retirement Plans (Continued)

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

	For the years ended June 30	
	2018	2017
STRS	\$ 1,590,400	\$ 1,574,598
OPERS	1,446,732	1,279,405
Total	<u>\$ 3,037,132</u>	<u>\$ 2,854,003</u>

Benefits Provided

STRS – Plan benefits are established under Chapter 3307 of the ORC, as amended by Substitute Senate Bill 342 in 2012, gives the Retirement Board the authority to make future adjustments to the member contribution rate, retirement age and service requirements, and the COLA 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 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 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.

STRS Ohio provides access to healthcare coverage to retirees who participated in the Defined Benefit or Combined Plans, and their dependents. Coverage under the current

Note 13 - Retirement Plans (Continued)

program includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the ORC, the State Teachers Retirement Board (the "Board") has discretionary authority over how much, if any, of the healthcare costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the healthcare cost in the form of a monthly premium.

OPERS – Plan benefits are established under Chapter 145 of the ORC, as amended by Substitute Senate Bill 343 in 2012. The requirements to retire depends on years of service (15 to 30 years) and from 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' 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.

In addition to the pension benefits described above, Ohio Law provides that the University fund postretirement healthcare benefits to retirees and their dependents through employer contributions. The portion of employer contributions, for all employers, allocated to health care was 2.0 percent and 1.0 percent during calendar years 2017 and 2016, respectively.

Net Pension Liability, Deferrals, and Pension Expense - At June 30, 2018 and 2017, the University reported a liability for its proportionate share of the net pension liability of STRS/OPERS. For June 30, 2018, the net pension liability was measured as of July 1, 2017 for STRS, and December 31, 2017 for the OPERS plan. For June 30, 2017, the net pension liability was measured as of July 1, 2016 for STRS, and December 31, 2016 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.

Shawnee State University

Notes to Financial Statements June 30, 2018 and 2017

Note 13 - Retirement Plans (Continued)

Plan	Measurement Date	Net Pension Liability		Proportionate Share		Percent Change
		2018	2017	2018	2017	
STRS	July 1	\$ 25,109,186	\$ 37,430,954	0.10570%	0.11182%	-5.47%
OPERS	December 31	11,380,348	18,089,973	0.07287%	0.07976%	-8.64%
Total		<u>\$ 36,489,534</u>	<u>\$ 55,520,927</u>			

For the years ended June 30, 2018 and 2017, the University recognized pension expense of \$(11,313,879) and \$7,228,893, respectively. At June 30, 2018, 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	\$ 983,780	\$ 442,677
Changes of assumptions	6,862,419	-
Net difference between projected and actual earnings on pension plan investments	-	3,291,257
Changes in proportion and differences between university contributions and proportionate share of contributions	379,077	2,763,070
University contributions subsequent to the measurement date	2,227,338	-
Total	<u>\$ 10,452,614</u>	<u>\$ 6,497,004</u>

At June 30, 2017, 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	\$ 1,630,104	\$ 210,869
Changes of assumptions	2,878,731	-
Net difference between projected and actual earnings on pension plan investments	5,810,965	-
Changes in proportion and differences between university contributions and proportionate share of contributions	502,134	1,055,652
University contributions subsequent to the measurement date	2,117,711	-
Total	<u>\$ 12,939,645</u>	<u>\$ 1,266,521</u>

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
2019	\$ 1,149,984
2020	1,227,294
2021	285,331
2022	(932,901)
2023	(721)
Thereafter	(717)

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in 2019.

Assumption Changes - During the plan year ended June 30, 2017, there were changes to several assumptions for STRS. The cost-of-living adjustment dropped from 2.00 percent to 0.00 percent. The wage inflation dropped from 2.75 percent to 2.50 percent. The investment rate of return decreased from 7.75 percent to 7.45 percent. The mortality tables used changed from RP-2000 to PR-2014.

During the plan year ended December 31, 2016, there were changes to several assumptions for OPERS. The wage inflation dropped from 3.75 percent to 3.25 percent. The projected salary increase range changed from 4.25-10.05 percent to 3.25-10.75 percent. The mortality tables used changed from RP-2000 to RP-2014.

Net OPEB Liability, Deferrals, and OPEB Expense – At June 30, 2018, the University reported a liability for its proportionate share of the net OPEB liability of STRS/OPERS. For June 30, 2018, the net OPEB liability was measured as of June 30, 2017 for STRS, and December 31, 2017 for the OPERS plan. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of those dates. The University’s proportion of the net OPEB liability was based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined.

Shawnee State University

Notes to Financial Statements June 30, 2018 and 2017

Note 13 - Retirement Plans (Continued)

Plan	Measurement Date	Net OPEB Liability 2018	Proportionate Share 2018
STRS	June 30	\$ 4,124,011	0.10570%
OPERS	December 31	7,650,350	0.07287%
Total		\$ 11,774,361	

For the year ended June 30, 2018, the University recognized OPEB expense of \$(672,762). At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 244,022	\$ -
Changes of assumptions	557,027	332,203
Net difference between projected and actual earnings on pension plan investments	-	746,171
Changes in proportion and differences between university contributions and proportionate share of contributions	-	-
University contributions subsequent to the measurement date	-	-
Total	\$ 801,049	\$ 1,078,374

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

Year Ending June 30	Amount
2019	\$ 66,933
2020	66,933
2021	(177,579)
2022	(202,232)
2023	(15,690)
Thereafter	(15,690)

Note 13 - Retirement Plans (Continued)

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net OPEB liability in 2019.

Assumption Changes – There were no changes in assumptions affecting the STRS and OPERS plans for the plan years ended June 30, 2017 and December 31, 2017, respectively.

Actuarial Assumptions – The total pension liability and OPEB liability is based on the results of an actuarial valuation were determined using the following actuarial assumptions for 2017, applied to all periods included in the measurement on June 30, 2018:

	STRS	OPERS
Valuation date - Pension	July 1, 2017	December 31, 2017
Valuation date - OPEB	June 30, 2017	December 31, 2016
Actuarial cost method	Entry age normal	Individual entry age
Cost of living	None	3.0 percent
Salary increases, including inflation	2.5 percent - 12.5 percent	3.25 percent -10.75 percent
Inflation	2.5 percent	3.25 percent
Investment rate of return - Pension	7.45 percent, net of pension plan investment expense	7.50 percent, net of pension plan investment expense
Investment rate of return - OPEB	4.51 percent, net of investment expense, including inflation	7.50 percent, net of pension plan investment expense
Health care cost trend rates	6.00 percent to 11 percent initial, 4.50 percent ultimate	7.50 percent initial, 3.25 percent ultimate in 2028
Experience study date	Period of five years ended July 1, 2016	Period of five years ended December 31, 2015
Mortality basis	RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016	RP-2014 Healthy Annuitant Mortality Table

Note 13 - Retirement Plans (Continued)

The following are actuarial assumptions for 2016, applied to all periods included in the measurement on June 30, 2017:

	STRS - as of 7/1/16	OPERS - as of 12/31/16
Valuation date	July 1, 2016	December 31, 2016
Actuarial cost method	Entry age normal	Individual entry age
Cost of living	2.0 percent	Pre 1/7/2013 Retiree: 3.0 Post 1/7/2013 Retiree: 3.0 percent through 2018, then 2.15 percent
Salary increases, including inflation	2.75 percent - 12.25 percent	3.25 percent - 10.75 percent
Inflation	2.75 percent	3.25 percent
Investment rate of return	7.75 percent - Net of pension plan investment expense	7.50 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, 2015
Mortality basis	RP-2000 Combined Mortality Table (Projection 2022- Scale AA)	RP-2014 Healthy Annuitant

Discount Rate – The discount rates used to measure the total pension liabilities at June 30, 2018 were 7.45 percent and 7.50 percent for STRS and OPERS, respectively. The discount rate used to measure the total pension liabilities at June 30, 2017 were 7.75 percent and 7.50 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 were 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.

The discount rates used to measure the total OPEB liabilities at June 30, 2018 were 4.13 percent and 3.85 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 become insufficient to make all projected future benefit payments for current active and inactive employees for STRS and OPERS.

Note 13 - Retirement Plans (Continued)

Therefore, a blended rate was used, which consisted of the long-term expected rate of return on OPEB plan investments for the funded benefit payments and a 20-year municipal bond rate applied to the unfunded benefit payment period to determine the total OPEB liability.

The long-term expected rate of return on pension plan and OPEB 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 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 (geometric for STRS) real rates of return for each major asset class are summarized in the following table as of the dates listed below:

STRS - as of 6/30/17			OPERS - as of 12/31/17		Health Care Portfolio		
Investment Category	Target Allocation	Long-term Expected	Investment Category	Target Allocation	Long-term Expected	Target Allocation	Long-term Expected
		Real Rate of Return			Real Rate of Return		Real Rate of Return
Domestic equity	28.00%	5.10%	Fixed income	23.00%	2.20%	34.00%	1.88%
International equity	23.00%	5.30%	Domestic equities	19.00%	6.37%	21.00%	6.37%
Alternatives	17.00%	4.84%	Real estate	10.00%	5.26%	0.00%	0.00%
Fixed income	21.00%	0.75%	Private equity	10.00%	8.97%	0.00%	0.00%
Real estate	10.00%	3.75%	International equity	20.00%	7.88%	22.00%	7.88%
Liquidity reserves	1.00%	0.00%	REITs	0.00%	0.00%	6.00%	5.91%
			Other Investments	18.00%	5.26%	17.00%	5.39%
Total	100.00%		Total	100.00%		100.00%	

STRS - as of 6/30/16			OPERS - as of 12/31/16		
Investment Category	Target Allocation	Long-term Expected	Investment Category	Target Allocation	Long-term Expected
		Real Rate of Return			Real Rate of Return
Domestic equity	31.00%	5.50%	Fixed income	23.00%	2.75%
International equity	26.00%	5.35%	Domestic equities	20.70%	6.34%
Alternatives	14.00%	5.50%	Real estate	10.00%	4.75%
Fixed income	18.00%	1.25%	Private equity	10.00%	8.97%
Real estate	10.00%	4.25%	International equity	18.30%	7.95%
Liquidity reserves	1.00%	0.50%	Other investments	18.00%	4.92%
Total	100.00%		Total	100.00%	

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:

Plan	2018		Current Discount Rate		1.00 Percent Increase	
	1.00 Percent Decrease					
STRS	6.45%	\$ 35,993,163	7.45%	\$ 25,109,186	8.45%	\$ 15,941,066
OPERS	6.50%	20,272,263	7.50%	11,380,348	8.50%	3,970,381
		<u>\$ 56,265,426</u>		<u>\$ 36,489,534</u>		<u>\$ 19,911,447</u>

Plan	2017		Current Discount Rate		1.00 Percent Increase	
	1.00 Percent Decrease					
STRS	6.75%	\$ 49,742,696	7.75%	\$ 37,430,954	8.75%	\$ 27,045,274
OPERS	6.50%	27,673,795	7.50%	18,089,973	8.50%	10,105,188
		<u>\$ 77,416,491</u>		<u>\$ 55,520,927</u>		<u>\$ 37,150,462</u>

Sensitivity of the net OPEB liability to changes in the discount rate – The following presents the net OPEB liability of the University calculated using the discount rate listed below, as well as what the University’s net OPEB 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:

Plan	1.00 Percent Decrease		Current Discount Rate		1.00 Percent Increase	
STRS	3.13%	\$ 5,536,419	4.13%	\$ 4,124,011	5.13%	\$ 3,007,748
OPERS	2.85%	10,163,822	3.85%	7,650,350	4.85%	5,616,979
		<u>\$ 15,700,241</u>		<u>\$ 11,774,361</u>		<u>\$ 8,624,727</u>

Note 13 - Retirement Plans (Continued)

Sensitivity of the net OPEB liability to changes in the health care cost trend rate – The following presents the net OPEB liability of the University calculated using the healthcare cost trend rate listed below, as well as what the University’s net OPEB liability would be if it were calculated using a health care cost trend rate that is 1.00 percentage point lower or 1.00 percentage point higher than the current rate:

Plan	1.00 Percent Decrease	Current Discount Rate	1.00 Percent Increase
STRS	\$ 2,865,186	\$ 4,124,011	\$ 5,780,773
OPERS	7,319,755	7,650,350	7,991,848
	<u>\$ 10,184,941</u>	<u>\$ 11,774,361</u>	<u>\$ 13,772,621</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.

Defined Contribution Pension Plans - The Alternative Retirement Plan (ARP) is a defined contribution pension plan, under IRS Section 401(a), and established by Ohio Amended Substitute House Bill 586 (ORC 3305.02) on March 31, 1998, for public institutions of higher education. Full-time employees are eligible to choose a provider, in lieu of STRS or OPERS, from the list of nine providers currently approved by the Ohio Department of Insurance and who hold agreements with the University. Employee and employer contributions equal to those required by STRS and OPERS are required for the ARP, less any amounts required to be remitted to the state retirement system in which the employee would otherwise have been enrolled.

Eligible employees have 120 days from their date of hire to make an irrevocable election to participate in the ARP. Under this plan, employees who would have otherwise been required to be in STRS or OPERS, and who elect to participate in the ARP, must contribute the employee’s share of retirement contributions to one of nine private providers approved by the Ohio Department of Insurance. The legislation mandates that the employer must contribute an amount to the state retirement system to which the employee would have otherwise belonged, based on an independent actuarial study commissioned by the Ohio Retirement Study Council and submitted to the Ohio Board of Regents. That amount is 9.53 and 9.5 percent for STRS and 11.56 and 13.23 percent for OPERS for the years ended June 30, 2018 and 2017. The employer also contributes what would have been the employer’s contribution under STRS or OPERS, less the aforementioned percentages, to the private provider selected by the employee. The University plan provides these employees with immediate plan vesting. The ARP does not provide disability benefits, survivor benefits, or postretirement health care. Benefits are entirely dependent on the sum of contributions and investment returns earned by each participant’s choice of investment options.

Note 13 - Retirement Plans (Continued)

As of June 30, 2018 and 2017, there are 76 and 70 active participants, respectively, participating in an ARP. The University's contribution for employees enrolled in ARP accounts for fiscal years 2018 and 2017 was \$542,121 and \$556,760, respectively.

Combined Plans - OPERS and STRS 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 - 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 2018, 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.

Note 14 - Risk Management (Continued)

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 14 - Risk Management (Continued)

Changes in the self-insurance claims liability for the years ended June 30, 2018, 2017, and 2016 are summarized as follows:

	2018	2017	2016
Accrued claims liability - Beginning of year	\$ 412,909	\$ 494,763	\$ 614,345
Current year claims	4,204,941	5,122,619	4,127,013
Claims payments	(4,261,110)	(5,204,473)	(4,246,595)
Accrued claims liability - End of year	<u>\$ 356,740</u>	<u>\$ 412,909</u>	<u>\$ 494,763</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 15 - 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, 2018 and 2017 are restricted primarily for scholarships, university programs, and capital improvements.

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

Note 15 - Component Unit Disclosure (Continued)

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, 2018 and 2017, by classification, is as follows:

	2018	2017
U.S. government securities	\$ 1,498,544	\$ 1,794,111
Foreign bond issues	210,497	171,720
Mutual funds:		
Equity	12,950,907	12,462,337
Fixed income	3,214,381	2,960,123
Corporate bond issues	<u>1,156,248</u>	<u>935,619</u>
Total	<u>\$ 19,030,577</u>	<u>\$ 18,323,910</u>

Assets Measured at Fair Value on a Recurring Basis at June 30, 2018

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, 2018
U.S. government securities	\$ 1,498,544	\$ -	\$ -	\$ 1,498,544
Mutual funds:				
Equity	12,950,907	-	-	12,950,907
Fixed income	3,214,381	-	-	3,214,381
Foreign bond issues	-	210,497	-	210,497
Corporate bond issues	-	1,156,248	-	1,156,248
Beneficial interest in trusts	-	-	913,594	913,594
Total assets	<u>\$ 17,663,832</u>	<u>\$ 1,366,745</u>	<u>\$ 913,594</u>	<u>\$ 19,944,171</u>

Note 15 - Component Unit Disclosure (Continued)

Assets Measured at Fair Value on a Recurring Basis at June 30, 2017

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, 2017
U.S. government securities	\$ 1,794,111	\$ -	\$ -	\$ 1,794,111
Mutual funds:				
Equity	12,462,337	-	-	12,462,337
Fixed income	2,960,123	-	-	2,960,123
Foreign bond issues	-	171,720	-	171,720
Corporate bond issues	-	935,619	-	935,619
Beneficial interest in trusts	-	-	1,025,037	1,025,037
Total assets	\$ 17,216,571	\$ 1,107,339	\$ 1,025,037	\$ 19,348,947

Fixed Assets

On June 14, 2018, the Foundation sold property located at 321-327 Third Street for \$200,000 and recorded a loss on the sale of these assets in the amount of \$1,591,611.

Property and equipment consist of the following:

	2018	2017
Land	\$ 2,011,200	\$ 2,248,769
Equipment and furniture	23,583	13,938
Buildings	8,843,646	9,717,077
Construction in progress	10,500	-
Total property and equipment	10,888,929	11,979,784
Accumulated depreciation	878,311	775,212
Net property and equipment	\$ 10,010,618	\$ 11,204,572

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

Note 15 - Component Unit Disclosure (Continued)

will have an option to extend the maturity date for a two-year period; however, payments will continue during that time. At June 30, 2018 and 2017, the outstanding principal balance of the note was \$3,865,792 and \$4,024,546, respectively.

On August 17, 2017, the foundation entered into a \$400,000 note with an interest rate of 5 percent payable to Burg DMI, LLC to purchase property at 221 Chillicothe Street. The note is secured by the land and building. This note requires monthly interest only payments for forty-eight months with the total principal due not later than August 17, 2021. At June 30, 2018 the outstanding principal balance on the note was \$400,000.

Related Party Transactions

During the years ended June 30, 2018 and 2017, the Foundation made distributions of \$1,053,123 and \$1,341,063, respectively, to or on behalf of the University for both restricted and unrestricted purposes. The Foundation leases building space to Shawnee State University for the use of educational facilities. The outstanding lease due under this arrangement was \$24,175 and \$26,345 as of June 30, 2018 and 2017, respectively. 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

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Shawnee State University

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

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

Liability

	2018	2017	2016	2015
University's proportion of the collective net pension liability:				
As a percentage	0.1057%	0.11182%	0.10962%	0.11347%
Amount	\$25,109,186	\$ 37,430,954	\$ 30,295,455	\$ 27,600,967
University's covered employee payroll	\$11,360,000	\$ 13,596,142	\$ 11,436,893	\$ 10,440,100
University's proportionate share of the collective pension liability, as a percentage of the University's covered employee payroll	221.03%	275.31%	264.89%	264.37%
Plan fiduciary net position as a percentage of the total pension liability	77.30%	66.78%	72.10%	74.71%

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

Liability

	2018	2017	2016	2015
University's proportion of the collective net pension liability:				
As a percentage	0.07287%	0.07976%	0.08469%	0.08633%
Amount	\$ 11,380,348	\$ 18,089,973	\$ 14,649,733	\$ 10,394,787
University's covered employee payroll	\$ 10,333,800	\$ 9,138,607	\$ 10,894,207	\$ 10,899,653
University's proportionate share of the collective pension liability, as a percentage of the University's covered employee payroll	110.13%	197.95%	134.47%	95.37%
Plan fiduciary net position as a percentage of the total pension liability	84.85%	77.39%	81.19%	86.53%

STRS Schedule of University Pension Contributions

	2018	2017	2016	2015
Statutorily required contribution	\$ 1,590,400	\$ 1,574,598	\$ 1,655,224	\$ 1,623,157
Contributions in relation to the actuarially determined contractually required contribution	\$ 1,590,400	\$ 1,574,598	\$ 1,655,224	\$ 1,623,157
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 11,360,000	\$ 11,247,129	\$ 11,823,029	\$ 11,593,979
Contributions as a percentage of covered employee payroll	14.00%	14.00%	14.00%	14.00%

OPERS Schedule of University Pension Contributions

	2018	2017	2016	2015
Statutorily required contribution	\$ 1,446,721	\$ 1,279,405	\$ 1,495,704	\$ 1,534,786
Contributions in relation to the actuarially determined contractually required contribution	\$ 1,446,721	\$ 1,279,405	\$ 1,495,704	\$ 1,534,786
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 10,333,800	\$ 9,138,607	\$ 10,683,600	\$ 10,962,757
Contributions as a percentage of covered employee payroll	14.00%	14.00%	14.00%	14.00%

Changes of benefit terms

There were no changes in benefit terms affecting the STRS and OPERS plans.

Changes of assumptions

STRS: During the plan year ended June 30, 2017, there were changes to several assumptions for STRS. The cost-of-living adjustment dropped from 2.00 percent to 0.00 percent. The wage inflation dropped from 2.75 percent to 2.50 percent. The investment rate of return decreased from 7.75 percent to 7.45 percent. The mortality tables used changed from RP-2000 to RP-2014.

OPERS: During the plan year ended December 31, 2016, there were changes to several assumptions for OPERS. The wage inflation dropped from 3.75 percent to 3.25 percent. The projected salary increase range changed from 4.25-10.05 percent to 3.25-10.75 percent. The mortality tables used changed from RP-2000 to RP-2014.

Shawnee State University

Schedule of University's Proportionate Share of the Other Post-Employment Benefits (OPEB) Liability and Schedule of University OPEB Contributions

STRS Schedule of the University's Proportionate Share of the Net OPEB Liability

2018

University's proportion of the collective net OPEB liability:	
As a percentage	0.10570%
Amount	\$ 4,124,011
University's covered employee payroll	\$ 11,360,000
University's proportionate share of the collective OPEB liability, as a percentage of the University's covered employee payroll	36.30%
Plan fiduciary net position as a percentage of the total OPEB liability	47.11%

OPERS Schedule of the University's Proportionate Share of the Net OPEB Liability

2018

University's proportion of the collective net OPEB liability:	
As a percentage	0.07287%
Amount	\$ 7,650,350
University's covered employee payroll	\$ 10,333,800
University's proportionate share of the collective OPEB liability, as a percentage of the University's covered employee payroll	74.03%
Plan fiduciary net position as a percentage of the total OPEB liability	54.14%

STRS Schedule of University Contributions

2018

Statutorily required contribution	\$ -
Contributions in relation to the actuarially determined contractually required contribution	\$ -
Contribution deficiency (excess)	\$ -
Covered employee payroll	\$ 11,360,000
Contributions as a percentage of covered employee payroll	0.00%

OPERS Schedule of University Contributions

2018

Statutorily required contribution	\$ 64,689
Contributions in relation to the actuarially determined contractually required contribution	\$ 64,689
Contribution deficiency (excess)	\$ -
Covered employee payroll	\$ 10,333,800
Contributions as a percentage of covered employee payroll	0.63%

Shawnee State University

Notes to Required Supplementary Information Year Ended June 30, 2018

Changes of benefit terms. There were no changes in benefit terms affecting the STRS and OPERS plans for the plan years ended June 30, 2017 and December 31, 2017, respectively.

Changes of assumptions. There were no changes in assumptions affecting the STRS and OPERS plans for the plan years ended June 30, 2017 and December 31, 2017, respectively.

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Supplementary Information

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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 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, 2018 and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated November 19, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinions 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2018-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

We also noted certain matters that we have reported to management of the University in a separate letter dated November 19, 2018.

To Management and the Board of Trustees
Shawnee State University

The University's Response to the Finding

The University's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

A handwritten signature in black ink that reads "Plante & Moran, PLLC". The signature is written in a cursive, flowing style.

November 19, 2018

Report on Compliance for Each Major Federal Program and 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 the University's major federal programs for the year ended June 30, 2018. The 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 the 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 the University's compliance.

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance that are required to be reported in accordance with the OMB Uniform Guidance, which are described in the accompanying schedule of findings and questioned costs as Findings 2018-002 and 2018-003. Our opinion on each major federal program is not modified with respect to these matters.

The University's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and/or corrective action plan. The University's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

To the Board of Trustees
Shawnee State University

Report on Internal Control Over Compliance

Management of the 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 the 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Findings 2018-002 and 2018-003, that we consider to be significant deficiencies.

The University's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. The University's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

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

November 19, 2018

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2018

Federal Grantor/Pass-through Grantor/Program Title	CFDA Number	Federal/Pass-through Grant Number	Total Amount Provided to Subrecipients	Expenditures
U. S. Department of Education:				
Direct from Federal Agency - Student Financial Assistance Cluster:				
Federal Supplemental Educational Opportunity Grants (SEOG)	84.007	N/A	\$ -	\$ 100,200
Federal College Work Study	84.033	N/A	-	101,916
Federal Pell Grant Program	84.063	N/A	-	7,332,891
Federal Direct Loan Program	84.268	N/A	-	18,384,827
Teacher Education Assistance for College and Higher Education (TEACH)	84.379	N/A	-	78,282
Total Student Financial Assistance Cluster				25,998,116
TRIO Cluster:				
Upward Bound	84.047A	N/A	-	133,649
Upward Bound Math Science	84.047M	N/A	-	259,606
Educational Opportunity Centers	84.066A	N/A	-	393,046
Total TRIO Cluster				786,301
Direct from Federal Agency - Higher Education Institutional Aid	84.031A	N/A	-	352,185
Pass through the Ohio Department of Education - Special Education Cluster (IDEA) - TVI Collaborative	84.027	N/A	-	564,431
Pass through the Ohio Department of Education:				
Twenty-First Century Community Learning Centers	84.287	063321-T1S1	-	197,508
Special Education Program	84.323A	N/A	-	14,101
ITQ Summer Institute	84.367	N/A	-	49,087
Total Pass-through Programs				260,696
U. S. Department of Agriculture - Pass through Ohio Department of Education - Child and Adult Care Food Program	10.558	16-CU, 21-CU, 21-FU	-	11,373
National Historic Publications and Grants Historic Newspapers	89.003	N/A	-	4,000
Corporation for National and Community Service Ohio CDC AmeriCorps VISTA	94.006	N/A	-	1,126
Total federal expenditures			\$ -	\$ 27,978,228

See notes to schedule of expenditures of federal awards.

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2018

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Shawnee State University (the "University") under programs of the federal government for the year ended June 30, 2018. The information in the 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 the University, it is not intended to and does not present the financial position, changes in net position, or cash flows of the University.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in 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 elected not to use the 10 percent *de minimis* 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, 2018, 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.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2018

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

Noncompliance material to financial statements noted? Yes X None reported

Federal Awards

Internal control over major programs:

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

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

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster	Opinion
84.007, 84.033, 84.063, 84.268, 84.379	Student Financial Assistance Cluster	Unmodified
84.047A, 84.047M, 84.066A	TRIO Cluster	Unmodified

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

Auditee qualified as low-risk auditee? X Yes No

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2018

Section II - Financial Statement Audit Findings

Reference Number	Finding
2018-001	<p>Finding Type - Significant deficiency</p> <p>Criteria - Controls should be in place to ensure that bank reconciliations are completed and reviewed on a timely basis and cash is properly reconciled to the general ledger.</p> <p>Condition - The University did not properly complete bank reconciliations throughout the year, and cash accounts were not fully reconciled to the general ledger until the end of the year.</p> <p>Context - The issue relates to the University's cash accounts and reconciliations completed throughout fiscal year 2018.</p> <p>Cause - The University implemented a new general ledger system during the year, which caused issues with the automatic bank reconciliation process. The general ledger system's automatic bank reconciliation function did not properly reconcile information between the bank accounts and the general ledger.</p> <p>Effect - As a result of the bank reconciliation deficiency, there is a risk that errors in cash would not be detected and corrected in a timely manner. There is also a risk that misappropriated cash would not be detected and corrected in a timely manner.</p> <p>Recommendation - We recommend that the University implement internal controls around the bank reconciliation process in order to ensure that it is able to be properly completed and reviewed in a timely manner throughout the year.</p> <p>Views of Responsible Officials and Planned Corrective Actions - Due to several issues (i.e., staff reduction, department reorganization, extended absences, inadequate training) in the department during the implementation of the new ERP automated account reconciliation module, required customization/design was not possible until late in the fiscal year. Due to recent system modifications, software updates performed to the automated reconciliation module, and better knowledge of the system, the process is now more efficient and reconciliations will be completed and reviewed on a regular basis.</p>

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2018

Section III - Federal Program Audit Findings

Reference Number	Finding
2018-002	<p>CFDA Number, Federal Agency, and Program Name - CFDA No. 84.268, Federal Direct Loan Program</p> <p>Federal Award Identification Number and Year - N/A</p> <p>Pass-through Entity - N/A</p> <p>Finding Type - Significant deficiency and material noncompliance with laws and regulations</p> <p>Repeat Finding - No</p> <p>Criteria - The aggregate unpaid principal amount of all Direct Subsidized Loans and Subsidized Federal Stafford Loans made to a student but excluding the amount of capitalized interest may not exceed \$23,000 in the case of any student who has not successfully completed a program of study at the undergraduate level (34 CFR 685.203(d)(1)).</p> <p>Condition - The University awarded financial aid to one student in excess of the undergraduate aggregate limit for Direct Subsidized Loans.</p> <p>Questioned Costs - Questioned costs for the student identified were \$5,000.</p> <p>Identification of How Questioned Costs Were Computed - The questioned costs were determined by totaling the direct subsidized loan aid awarded to the student in excess of the aggregate limit for subsidized loans.</p> <p>Context - Of the 25 students tested for eligibility, one student was awarded Direct Subsidized Loans in excess of the aggregate limit.</p> <p>Cause and Effect - During calculation of the student's award, the aggregate limit was not properly reviewed for Direct Subsidized Loans to ensure the maximum annual aid amount could be provided to the student. Furthermore, during a portion of the year, the University did not have a secondary review process in place for student award determinations that could have caught the error.</p> <p>Recommendation - The University should implement a policy to ensure that all Direct Loans are reviewed against aggregate limits and all award determinations are independently reviewed.</p> <p>Views of Responsible Officials and Corrective Action Plan - When processing student loans, the financial aid specialist checks each student's aggregate loan history in NSLDS. A second check is performed after the loan is processed. When the University receives a FAFSA, a comment code is listed if the student is near or exceeded their aggregate loan limits. Our student information system adds a contact for these students. We have created a report to identify these students and review their loan history and current awards to ensure they have not been over-awarded.</p>

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2018

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2018-003	<p>CFDA Number, Federal Agency, and Program Name - CFDA No. 84.268, Federal Direct Loan Program</p> <p>Federal Award Identification Number and Year - N/A</p> <p>Pass-through Entity - N/A</p> <p>Finding Type - Significant deficiency and material noncompliance with laws and regulations</p> <p>Repeat Finding - No</p> <p>Criteria - In the program participation agreement, the school must promise to comply with the act and applicable regulations and must agree to, on a monthly basis, reconcile institutional records with Direct Loan funds received from the Secretary and Direct Loan disbursement records submitted to and accepted by the Secretary (34 CFR 685.300(b)(5)).</p> <p>Condition - The University did not complete a monthly School Account Statement Direct Loan reconciliation for October 2017.</p> <p>Questioned Costs - None</p> <p>Identification of How Questioned Costs Were Computed - N/A</p> <p>Context - Of three months selected for testing, a Direct Loan reconciliation was not performed for one month.</p> <p>Cause and Effect - The University did not have a control in place in order to ensure that a monthly reconciliation was performed, which led to the reconciliation not being performed for one month.</p> <p>Recommendation - The University should implement a process to ensure that a Direct Loan reconciliation is performed each month.</p> <p>Views of Responsible Officials and Planned Corrective Actions - Calendar reminders have been added to the assistant director of financial aid's Outlook calendar. One is to run a report from our student information system of all students who have received student loans. The second is to run the school accounts statement from common organization and disbursement. The director has also added calendar reminders to ensure the reconciliation has been completed by midmonth.</p>



Dave Yost • Auditor of State

SHAWNEE STATE UNIVERSITY

SCIOTO COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 18, 2018**