

**SHAWNEE STATE UNIVERSITY**

Portsmouth, Ohio

**FINANCIAL STATEMENTS**

June 30, 2004 and 2003





**Auditor of State  
Betty Montgomery**

Board of Trustees  
Shawnee State University  
940 Second Street  
Portsmouth, Ohio 45662-4344

We have reviewed the Independent Auditor's Report of Shawnee State University, Scioto County, prepared by Crowe Chizek and Company LLC, for the audit period July 1, 2003 through June 30, 2004. 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 cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

December 14, 2004

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SHAWNEE STATE UNIVERSITY  
Portsmouth, Ohio

FINANCIAL STATEMENTS  
June 30, 2004 and 2003

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SHAWNEE STATE UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the fiscal year ended June 30, 2004

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This section of Shawnee State University's annual financial report presents a discussion and analysis of the financial performance of the University during the fiscal year ended June 30, 2004. This discussion, prepared by University management, provides an overview of the University's financial activities and should be evaluated in conjunction with the accompanying financial statements and footnotes.

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

In addition, in accordance with Governmental Accounting Standards Board's (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the Shawnee State University Development Foundation financial statements have been included in this annual report. This information has been provided on separate financial statements.

### **Financial Highlights**

Key financial highlights for 2004 are as follows:

- Total net assets increased \$452,655 which represents a 0.5% increase from 2003.
- Total assets increased \$695,595 which represents a 0.8% increase from 2003. Total net capital assets decreased \$544,709 which represents a 0.8% decrease from 2003.
- Total liabilities increased by \$242,940. Current liabilities increased \$365,642 and non-current liabilities decreased by \$122,702.
- Tuition, Fees and Other Student Charges (net of scholarships) increased \$2,743,117, which represents a 19% increase from 2003. Tuition fees were increased 8.9% in September 2003. Increased fees, coupled with enrollment growth, accounts for this increase in revenue.
- Non-operating revenue increased \$129,847 as a result of an increase in investment income and non-operating expenses decreased \$121,123.

### **Using this Financial Report**

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

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SHAWNEE STATE UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the fiscal year ended June 30, 2004

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Statement of Net Assets and Changes in Net Assets

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

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

**STATEMENT OF NET ASSETS**

The Statement of Net Assets, which reports all assets and liabilities of the University, reflects the financial position of the University at the end of the fiscal year. Total assets minus total liabilities equals net assets. The change in net assets during the fiscal year is a measurement of the change in the overall financial condition of the University. The University's assets, liabilities, and net assets as of June 30, 2004, 2003 and 2002 are presented below:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Assets:			
Current Assets	\$ 23,142,423	\$ 21,702,639	\$ 19,997,713
Capital Assets, Net	66,545,274	67,089,983	67,868,161
Non-Current Assets	<u>61,785</u>	<u>261,265</u>	<u>772,985</u>
Total Assets	<u>89,749,482</u>	<u>89,053,887</u>	<u>88,638,859</u>
Liabilities:			
Current and Other Liabilities	4,725,641	4,359,999	4,934,147
Long-Term Liabilities	<u>3,762,475</u>	<u>3,885,177</u>	<u>4,247,701</u>
Total Liabilities	<u>8,488,116</u>	<u>8,245,176</u>	<u>9,181,848</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	63,945,274	64,179,983	64,668,161
Restricted	1,604,750	1,552,476	1,588,377
Unrestricted	<u>15,711,342</u>	<u>15,076,252</u>	<u>13,200,473</u>
Total Net Assets	<u>\$ 81,261,366</u>	<u>\$ 80,808,711</u>	<u>\$ 79,457,011</u>

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SHAWNEE STATE UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the fiscal year ended June 30, 2004

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The net assets of the University increased \$452,655 or .5% after an increase of \$1,351,700 in 2003. Although a .5% increase in net assets may not seem significant, it is important to note that the University's intent is not to profit from this operation but to recover costs. Total liabilities increased by \$242,940. Current liabilities increased by \$365,642 as a result of increases in both deposits held for others and anticipated health care run-out claims. Non-current liabilities decreased by \$122,702 due to a reduction in bonds payable.

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

The Statement of Revenues, Expenses and Changes in Net Assets presents the results of operations for the University. The University's revenues, expenses, and changes in net assets for fiscal years ended June 30, 2004, June 30, 2003 and June 30, 2002 are as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating Revenues:			
Tuition, Fees, and Other Student Charges	\$ 16,916,480	\$ 14,173,363	\$ 11,625,178
Grants and Contracts	13,449,464	12,844,615	11,308,225
Sales and Services	1,469,271	2,065,228	2,029,897
Other Income	171,585	322,647	208,367
Non-Operating Revenues:			
Interest Income	346,100	225,534	388,362
State Appropriations	13,601,049	13,591,768	14,023,513
Capital Appropriations	<u>464,180</u>	<u>257,240</u>	<u>2,033,736</u>
Total Revenues	<u>46,418,129</u>	<u>43,480,395</u>	<u>41,617,278</u>
Operating Expenses:			
Instruction and Research	13,722,150	12,461,033	12,172,439
Public Service	3,341,401	3,223,625	3,051,816
Academic Support	2,367,035	2,277,054	2,239,148
Student Services	3,313,190	2,982,177	3,021,937
Institutional Support	4,827,946	4,745,395	5,086,160
Operation and Maintenance of Plant	3,694,063	2,179,358	2,293,822
Scholarships	8,706,297	8,291,411	7,024,712
Depreciation	1,876,614	1,776,953	1,844,968
Auxiliary Enterprises	3,881,210	3,834,998	3,532,558
Non-Operating Expenses:			
Interest on Capital Asset Related Debt	188,559	207,693	225,409
Loss on Disposal of Fixed Assets	36,413	138,402	73,860
Amortization of Debt Issuance Cost	<u>10,596</u>	<u>10,596</u>	<u>10,596</u>
Total Expenses	<u>45,965,474</u>	<u>42,128,695</u>	<u>40,577,425</u>
Increase in Net Assets	<u>\$ 452,655</u>	<u>\$ 1,351,700</u>	<u>\$ 1,039,853</u>

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SHAWNEE STATE UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the fiscal year ended June 30, 2004

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State appropriations represented 29.3% of the University's total revenue in 2004 and 31.3% in 2003. This percentage shows that tuition and fee revenue alone is not sufficient to cover relevant operational expenses. It further illustrates that the financial condition of the University is dependent upon a predictable and relatively stable level of state appropriation funding.

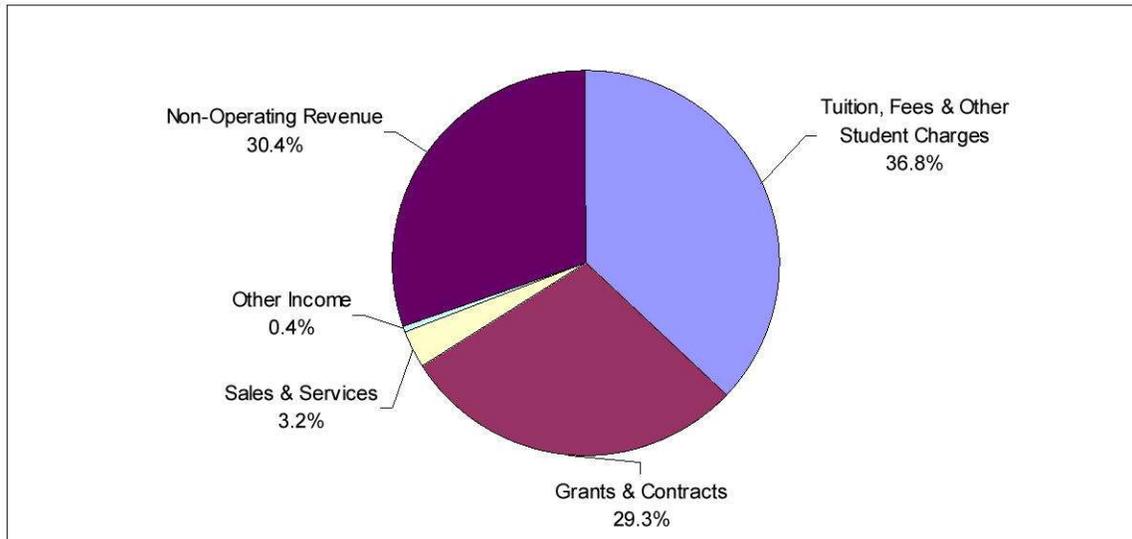
Shawnee State University is dedicated to its mission of providing higher education that fosters competence in oral and written communication, scientific and quantitative reason, and critical analysis/logical thinking. To enrich the lives of the community, the University provides opportunities for continuing personal and professional development, intellectual discovery, and appreciation for the creative and performing arts. The University charges students tuition and fees in accordance with approved University policy, as constrained by State laws. Rates charged for tuition and fees increased 8.9% from 2003.

During 2004, the University generated revenues from tuition and fees in excess of \$16.9 million and had total expenses of approximately \$46 million. Investing practices earned interest income of \$346,100 during 2004 in comparison to \$225,534 during 2003, which reflects a increase of \$120,566 from 2003. This reverses the decline in 2003 from 2002 of \$162,828. The 2004 increase is largely due to an increase in investments in 2004. The interest expense of \$188,559 for 2004 is attributable to outstanding general revenue bonds.

The 10% increase in instructional expense from \$12,461,033 in 2003 to \$13,722,150 in 2004 is attributable to increased compensation costs to meet staffing needs as a result of increased enrollment.

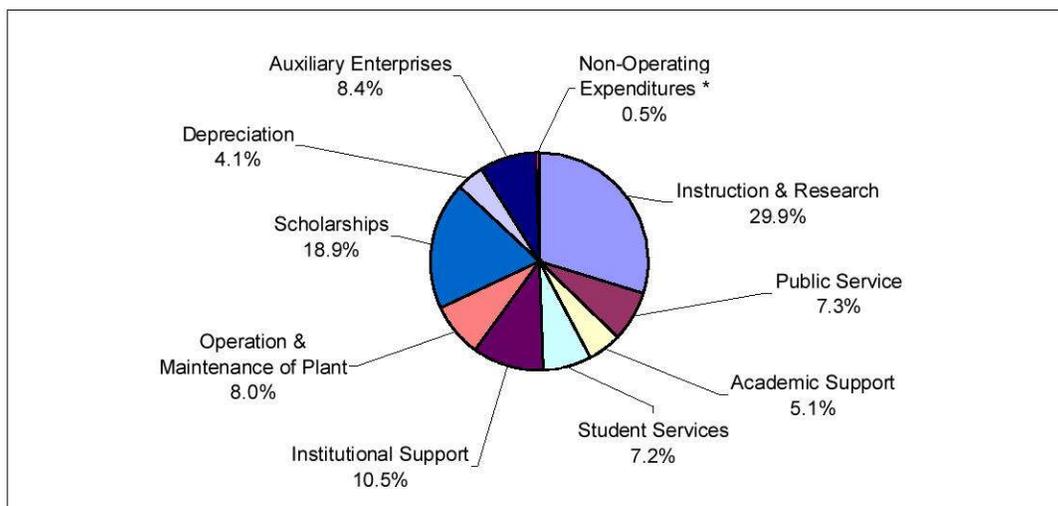
The following graphs summarize Shawnee State University's revenue and expense activity for the fiscal year ending June 30, 2004.

Graph 1  
Revenue Activity



SHAWNEE STATE UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the fiscal year ended June 30, 2004

Graph 2  
Expense Activity



**STATEMENT OF CASH FLOWS**

The Statement of Cash Flows provides information about the University's financial condition by reporting the cash sources (receipts) and the cash uses (payments) during the fiscal year ending June 30, 2004. A comparison of cash sources and uses during fiscal years 2004, 2003 and 2002 is presented below:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b><u>Cash provided (used) by:</u></b>			
Operating activities	\$ (11,956,665)	\$ (11,692,623)	\$ (12,825,584)
Non-capital financing activities	13,730,284	13,591,768	14,023,513
Capital and related financing activities	(1,395,208)	(1,544,893)	(1,757,689)
Investing activities	<u>(13,445,226)</u>	<u>4,513,378</u>	<u>401,658</u>
Net increase (decrease) in cash & cash equivalents	(13,066,815)	4,867,630	(158,102)
Cash and cash equivalents - beginning of the year	<u>18,748,081</u>	<u>13,880,451</u>	<u>14,038,553</u>
end of the year	<u>\$ 5,681,266</u>	<u>\$ 18,748,081</u>	<u>\$ 13,880,451</u>

Cash and cash equivalents decreased by \$13,066,815 primarily as a result of a substantial increase in investment activities.

SHAWNEE STATE UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the fiscal year ended June 30, 2004

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**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of fiscal year 2004, the University had \$66,545,274 in net capital assets. This reflects an overall decrease of \$544,709 in net capital assets from 2003.

Capital Assets, Net of Depreciation  
At June 30,

	<u>2004</u>	<u>2003</u>
Land	\$ 7,534,052	\$ 7,351,987
Land Improvements	6,928,632	6,914,202
Buildings and Improvements	45,948,623	46,813,192
Equipment	2,011,474	1,862,581
Library Books	4,085,357	4,049,789
Construction in Progress	<u>37,136</u>	<u>98,232</u>
Totals	<u>\$ 66,545,274</u>	<u>\$ 67,089,983</u>

**Debt Administration**

At June 30, 2004, the University had two outstanding General Revenue Bonds Payable totaling \$2,600,000; \$330,000 of which is due within one year. This reflects a \$310,000 overall decrease from 2003 in the General Revenue Bonds Payable liability.

Outstanding Debt at Year End

	<u>2004</u>	<u>2003</u>
General Revenue Bonds Payable:		
6.0% to 7.1% 1989 - Series A	\$ 1,320,000	\$ 1,535,000
4.6% to 6.3% 1996 - Series B	<u>1,280,000</u>	<u>1,375,000</u>
Total	<u>\$ 2,600,000</u>	<u>\$ 2,910,000</u>

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

**CURRENT FINANCIAL ISSUES AND CONCERNS**

The University has a strong financial foundation to continue accomplishing its mission and goals. The University's Senate Bill 6 ratios that measure the overall financial health of the institution are strong. However, Shawnee State University continues to face financial challenges. The State of Ohio's budget in the current biennium has, in part, temporary sources of revenue financing some recurring expenditures. A notable temporary source of revenue is the \$0.01 sales tax due to expire at the end of June, 2005. If alternative replacement revenue sources are not identified, the University is concerned about further reductions in state support.

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SHAWNEE STATE UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the fiscal year ended June 30, 2004

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Shawnee State University is also disadvantaged by the "percentage increase" regulations in State law governing tuition increases. The University's tuition is relatively low compared to other Ohio public universities. A percentage cap on tuition increases results in relatively less revenue gain at Shawnee State University compared to other public universities with the same tuition cap constraint.

The impact of inflation on normal operating costs intensifies the need to both increase revenue from other funding sources and implement further appropriate cost control measures.



Crowe Chizek and Company LLC  
Member Horwath International

## REPORT OF INDEPENDENT AUDITORS

Board of Trustees  
Shawnee State University  
Portsmouth, Ohio

We have audited the accompanying statements of net assets of Shawnee State University (the University) as of June 30, 2004, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of the University as of June 30, 2003 were audited by other auditors whose report, dated October 15, 2003, expressed an unqualified opinion on those statements. The financial statements of the Shawnee State University Development Foundation as of June 30, 2003 were audited by other auditors whose report, dated October 15, 2003, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

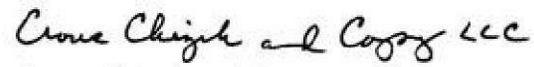
As discussed in Note 1, the University adopted the provisions of Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University, as of June 30, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 7, 2004 on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

The Management's Discussion and Analysis on pages 1-7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

  
Crowe Chizek and Company LLC

Columbus, Ohio  
October 7, 2004

SHAWNEE STATE UNIVERSITY  
STATEMENTS OF NET ASSETS  
JUNE 30, 2004 and 2003

<u>ASSETS</u>	<u>2004</u>	<u>2003</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 5,044,574	\$ 17,926,243
Deposits held by trustees	636,692	813,146
Receivables		
Interest	726	2,293
Accounts (net of allowance for doubtful accounts of \$627,904 in 2004 and \$540,000 in 2003, respectively)	3,301,060	2,605,261
Notes (net of allowance for doubtful accounts of \$815 in 2004 and 2003)	49,871	57,533
Amounts due from primary government	34,670	82,398
Inventory	45,112	48,758
Investments	13,963,893	
Deferred charges	10,596	10,596
Prepaid items	55,229	156,411
Total current assets	<u>23,142,423</u>	<u>21,702,639</u>
<b>NONCURRENT ASSETS</b>		
Restricted assets:		
Cash and cash equivalents		8,692
Investments		180,191
Deferred charges	61,785	72,382
Capital assets, net	66,545,274	67,089,983
Total noncurrent assets	<u>66,607,059</u>	<u>67,351,248</u>
<b>TOTAL ASSETS</b>	<u>89,749,482</u>	<u>89,053,887</u>
 <b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	559,472	543,972
Contracts payable		32,615
Accrued wages and benefits	1,827,145	1,836,501
Workers compensation		184,620
Compensated absences payable	165,831	140,071
Bonds payable	330,000	310,000
Accrued interest payable	14,152	15,855
Deferred revenue	672,610	422,410
Deposits held by and due to others	206,431	77,196
Claims payable	950,000	796,759
Total current liabilities	<u>4,725,641</u>	<u>4,359,999</u>
<b>NONCURRENT LIABILITIES</b>		
Compensated absences payable	1,492,475	1,285,177
Bonds payable	2,270,000	2,600,000
Total noncurrent liabilities	<u>3,762,475</u>	<u>3,885,177</u>
<b>TOTAL LIABILITIES</b>	<u>8,488,116</u>	<u>8,245,176</u>
 <b>NET ASSETS</b>		
Invested in capital assets, net of related debt	63,945,274	64,179,983
Restricted		
Nonexpendable		
Expendable		
Loans	112,736	112,736
Expendable - other	901,827	843,336
Debt service	590,187	596,404
Unrestricted	<u>15,711,342</u>	<u>15,076,252</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 81,261,366</u>	<u>\$ 80,808,711</u>

**SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2004 and 2003**

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	<u>2004</u>	<u>2003</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 500,096	\$ 508,996
Investments	9,084,185	8,039,997
Other assets	112,819	101,648
Pledges receivable, net	172,126	159,246
Beneficial interest in trusts held by others	1,317,484	1,106,414
<b>Total assets</b>	<u>\$ 11,186,710</u>	<u>\$ 9,916,301</u>
 <b>Liabilities</b>		
Accounts payable	9,710	10,776
Deposits held and due to others	39,441	22,065
Annuity payment liability	<u>131,377</u>	<u>78,986</u>
 Total liabilities	 180,528	 111,827
 <b>Net Assets</b>		
Unrestricted	980,708	880,198
Temporarily restricted	4,758,712	4,196,339
Permanently restricted	<u>5,266,762</u>	<u>4,727,937</u>
 Total net assets	 <u>11,006,182</u>	 <u>9,804,474</u>
 <b>Total liabilities and net assets</b>	 <u>\$ 11,186,710</u>	 <u>\$ 9,916,301</u>

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See accompanying notes to financial statements

**SHAWNEE STATE UNIVERSITY**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**JUNE 30, 2004 and 2003**

<b>REVENUES</b>	<u><b>2004</b></u>	<u><b>2003</b></u>
Operating Revenues		
Student tuition and fees (net of scholarship allowances of \$1,383,083 in 2004 and \$1,169,751 in 2003)	\$ 16,916,480	\$ 14,173,363
Federal grants and contracts	8,970,932	8,427,233
State grants and contracts	2,897,277	2,786,819
Local grants and contracts	807,564	982,491
Private gifts, grants and contracts	773,691	648,072
Sales and services (net of scholarship allowances of \$110,368 in 2004 and \$66,161 in 2003)	1,469,271	2,065,228
Miscellaneous	171,585	322,647
Total operating revenues	<u>32,006,800</u>	<u>29,405,853</u>
<b>EXPENSES</b>		
Operating Expenses		
Educational and general		
Instruction and departmental research	13,722,150	12,461,033
Public service	3,341,401	3,223,625
Academic support	2,367,035	2,277,054
Student services	3,313,190	2,982,177
Institutional support	4,827,946	4,745,395
Operation and maintenance of plant	3,694,063	2,179,358
Scholarships and fellowships	8,706,297	8,291,411
Depreciation expense	1,876,614	1,776,953
Auxiliary enterprises	3,881,210	3,834,998
Total operating expenses	<u>45,729,906</u>	<u>41,772,004</u>
Operating loss	<u>(13,723,106)</u>	<u>(12,366,151)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	13,601,049	13,591,768
Interest income	346,100	225,534
Interest on capital asset related debt	(188,559)	(207,693)
Loss on disposal of capital assets	(36,413)	(138,402)
Amortization of debt issuance cost	(10,596)	(10,596)
Net nonoperating revenues	<u>13,711,581</u>	<u>13,460,611</u>
Income before capital appropriations	(11,525)	1,094,460
Capital appropriations	<u>464,180</u>	<u>257,240</u>
<b>INCREASE IN NET ASSETS</b>	452,655	1,351,700
<b>NET ASSETS</b>		
Net assets- beginning of year	<u>80,808,711</u>	<u>79,457,011</u>
Net assets- end of year	<u>\$ 81,261,366</u>	<u>\$ 80,808,711</u>

**SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenues, gains, and other support</b>				
Contributions	\$ 178,888	\$ 105,120	\$ 538,825	\$ 822,833
Investment income, net	77,229	\$ 852,904	-	930,133
Net assets released from restrictions	<u>395,651</u>	<u>(395,651)</u>	<u>-</u>	<u>-</u>
 Total revenues, gains, and other support	 <u>651,768</u>	 <u>562,373</u>	 <u>538,825</u>	 <u>1,752,966</u>
<b>Expenses and losses</b>				
Scholarships and other student aid	153,804	-	-	153,804
Institutional support	261,821	-	-	261,821
Guest speakers and lecturers	18,570	-	-	18,570
Management and general expenses	<u>117,063</u>	<u>-</u>	<u>-</u>	<u>117,063</u>
 Total expenses and losses	 <u>551,258</u>	 <u>-</u>	 <u>-</u>	 <u>551,258</u>
 Change in net assets	 100,510	 562,373	 538,825	 1,201,708
 Net assets at the beginning of the year	 <u>880,198</u>	 <u>4,196,339</u>	 <u>4,727,937</u>	 <u>9,804,474</u>
 Net assets at the end of the year	 <u>\$ 980,708</u>	 <u>\$ 4,758,712</u>	 <u>\$ 5,266,762</u>	 <u>\$11,006,182</u>

See accompanying notes to financial statements

**SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2003**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenues, gains, and other support</b>				
Contributions	\$ 24,807	\$ 113,760	\$ 315,930	\$ 454,497
Investment income, net	4,117	21,121	25,537	50,775
Net assets released from restrictions	<u>565,527</u>	<u>(565,527)</u>	<u>-</u>	<u>-</u>
Total revenues, gains, and other support	<u>594,451</u>	<u>(430,646)</u>	<u>341,467</u>	<u>505,272</u>
<b>Expenses and losses</b>				
Scholarships and other student aid	196,202	-	-	196,202
Institutional support	333,323	-	-	333,323
Guest speakers and lecturers	3,130	-	-	3,130
Management and general expenses	<u>114,292</u>	<u>-</u>	<u>-</u>	<u>114,292</u>
Total expenses and losses	<u>646,947</u>	<u>-</u>	<u>-</u>	<u>646,947</u>
Change in net assets	(52,496)	(430,646)	341,467	(141,675)
Net assets at the beginning of the year	<u>932,694</u>	<u>4,626,985</u>	<u>4,386,470</u>	<u>9,946,149</u>
Net assets at the end of the year	<u>\$ 880,198</u>	<u>\$ 4,196,339</u>	<u>\$ 4,727,937</u>	<u>\$ 9,804,474</u>

See accompanying notes to financial statements

**SHAWNEE STATE UNIVERSITY**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from tuition, fees and other student charges \$	16,926,185	\$ 14,123,792
Cash received from gifts, grants and contracts	13,041,268	12,386,406
Cash received from sales and services	1,444,938	2,070,052
Cash received from miscellaneous services	171,585	322,647
Cash payments to suppliers for goods and services	(9,635,285)	(9,245,254)
Cash payments to employees for services	(17,984,247)	(16,134,105)
Cash payments for employee benefits	(7,214,812)	(6,924,750)
Cash payments for scholarships and fellowships	(8,706,297)	(8,291,411)
Net cash used by operating activities	<u>(11,956,665)</u>	<u>(11,692,623)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	13,601,049	13,591,768
Net cash from agency transactions	129,235	-
Net cash provided by noncapital financing activities	<u>13,730,284</u>	<u>13,591,768</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Capital appropriations	496,795	378,105
Proceeds from sale of capital assets	-	180,000
Payments for capital acquisitions	(1,391,741)	(1,603,720)
Principal payments	(310,000)	(290,000)
Interest payments	(190,262)	(209,278)
Net cash used by financing activities	<u>(1,395,208)</u>	<u>(1,544,893)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	347,667	256,254
Proceeds for sales and maturities of investments	171,000	4,257,124
Purchase of securities	(13,963,893)	-
Net cash used by investing activities	<u>(13,445,226)</u>	<u>4,513,378</u>
<b>NET CHANGE IN CASH</b>	(13,066,815)	4,867,630
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>18,748,081</u>	<u>13,880,451</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 5,681,266</u>	<u>\$ 18,748,081</u>
<b>RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating loss	\$ (13,723,106)	\$ (12,366,151)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation expense	1,876,614	1,776,953
Changes in assets and liabilities		
Accounts receivable	(680,686)	(671,828)
Notes receivable	7,662	7,948
Prepaid items	101,182	(24,004)
Inventory	3,646	7,834
Accounts payable	15,500	(906,733)
Accrued wages and benefits	(9,356)	271,532
Compensated absences payable	233,058	120,635
Workers compensation payable	(184,620)	(69,733)
Deferred revenue	250,200	160,924
Claims payable	153,241	-
Net cash used by operating activities	<u>\$ (11,956,665)</u>	<u>\$ (11,692,623)</u>

SHAWNEE STATE UNIVERSITY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2004 and 2003

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**NOTE 1 - REPORTING ENTITY**

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

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

In accordance with Governmental Accounting Standards Board Statement No. 14, *The Reporting Entity*, (GASB No. 14) the University's financial statements are included, as a discrete entity, on the State of Ohio's Consolidated Annual Financial Report. The financial statements of the Shawnee State University Development Foundation are included in this report in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units - an amendment of GASB Statement No. 14*. This Statement amended Statement No. 14 to provide additional guidance to determine whether certain organizations, such as not-for-profit foundations, for which the primary institution is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the primary entity. Generally, this statement requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of an institution. The provisions of this Statement became effective for financial statements for periods beginning after June 15, 2003.

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

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(Continued)

SHAWNEE STATE UNIVERSITY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2004 and 2003

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

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

**Basis of Presentation**

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

- **Invested in capital assets, net of related debt:** Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- **Restricted:**  
*Nonexpendable* – Net assets subject to externally imposed stipulations that they be maintained permanently by the University.

*Expendable* – Net assets whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time. These net assets principally represent amounts for specified capital construction projects.

- **Unrestricted:** Net assets whose use by the University is not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

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

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(Continued)

SHAWNEE STATE UNIVERSITY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2004 and 2003

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

**Basis of Accounting**

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

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

**Deferred Revenue**

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

**Income Taxes**

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

**Investments**

During fiscal year 2004, investments were limited to STAR Ohio, First American Treasury Fund, Common Fund, and Mellon Private Asset Management Fund.

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

The University has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price at which the investment could be sold on June 30, 2004.

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

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(Continued)

SHAWNEE STATE UNIVERSITY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2004 and 2003

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

**Inventories**

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

**Capital Assets**

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

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

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

Shawnee State University's policy is to capitalize net interest on the enterprise fund construction projects until substantial completion of the project. The amount of the capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project and the interest earned from temporary investments of the debt proceeds over the same period. Capitalized interest is amortized on a straight-line basis over the estimated useful life of the asset. For 2004 and 2003, no material interest costs were incurred on construction projects for Shawnee State University.

**Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue during the reporting period. Actual results could differ from those estimates.

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(Continued)

SHAWNEE STATE UNIVERSITY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2004 and 2003

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

**Compensated Absences**

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

**Operating Revenues and Expenses**

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

**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 the services are consumed.

**Deferred Charges**

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

**Budgetary Process**

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

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(Continued)

SHAWNEE STATE UNIVERSITY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2004 and 2003

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

**Other Significant Accounting Policies**

Certain items have been reclassified for the year ended June 30, 2003, in order to conform to classifications used for the year ended June 30, 2004.

**NOTE 3 - CASH AND INVESTMENTS**

The University invests in those instruments identified by state statute. Specifically, authorized investment instruments consist of obligations of the U. S. Treasury, agencies and instrumentalities of the U. S. Government, bonds and other obligations of the State of Ohio and its political subdivisions, collateralized certificates of deposit, and the State Treasury Asset Reserve of Ohio (STAR Ohio), which is managed by the State of Ohio. The University also has investment management agreements with the Common Fund and Mellon, as permitted by state statute. The agreements allow (within statute limits) investment in both debt and equity instruments.

All investments are stated at fair value as required by GASB Statement No. 31. Investments acquired by gift are stated at fair value at date of gift if a fair value is available, and otherwise at an appraised or nominal value.

*Deposits:* At June 30, 2004, the carrying amount of the University's deposits, (which consists of cash, excluding cash on hand of \$4,212, deposits held by trustee, and investments) was \$5,145,083 and the bank balance was \$5,875,105. The difference in the carrying amount and bank balance results from outstanding checks and deposits in transit. Of the bank balance, \$100,000 is covered by federal deposit insurance (Category 1). The remaining balance at June 30, 2004 of \$5,775,105 is uninsured but collateralized by U.S. Treasuries held by the Federal Reserve bank in "book entry" form in the name of the respective bank, but who also internally designate the securities as assigned to the University (Category 2).

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

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(Continued)

SHAWNEE STATE UNIVERSITY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 June 30, 2004 and 2003

**NOTE 3 - CASH AND INVESTMENTS (Continued)**

	<u>Category 1</u>	<u>Category 2</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Common Fund	--	--	\$ 4,763,192	\$ 4,763,192
First American Treasury Fund	--	--	1,525,656	1,525,656
Mellon Asset Mgmt. Fund	--	--	4,453,170	4,453,170
STAR Ohio	--	--	<u>3,753,846</u>	<u>3,753,846</u>
 Total	 <u>\$ --</u>	 <u>\$ --</u>	 <u>\$14,495,864</u>	 <u>\$14,495,846</u>

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

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

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No.9	\$ 5,681,266	\$ 13,963,893
Cash on hand	(4,212)	--
First American Treasury Fund	<u>(531,971)</u>	<u>531,971</u>
GASB Statement No. 3	<u>\$ 5,145,083</u>	<u>\$ 14,495,864</u>

**NOTE 4 - STATE SUPPORT**

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

In addition to the student subsidies, the State of Ohio provides the funding for the construction of major plant facilities on the University's campus. The funding for the construction of facilities is obtained from the issuance of revenue bonds by the Ohio Public Facilities Commission, which in turn causes the construction and subsequent lease of the facility by the Ohio Board of Regents. Upon completion of a facility, the Ohio Board of Regents turns over control to the University. The University capitalizes the costs of these facilities as construction is completed and funded by the Ohio Public Facilities Commission.

(Continued)

SHAWNEE STATE UNIVERSITY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2004 and 2003

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**NOTE 4 - STATE SUPPORT** (Continued)

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

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

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

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

**NOTE 5 - RISK MANAGEMENT**

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2004, the University maintained comprehensive insurance coverage with a private carrier for real property, building contents, and motor vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are 100% insured.

Coverages provided by this company are as follows:

Real and personal property (\$10,000 deductible)	\$ 105,988,293
Automobile liability (\$500 deductible)	1,000,000*
Uninsured motorists (\$500 deductible)	1,000,000*
Employee benefits liability (Aggregate)	1,000,000*
General liability per occurrence	1,000,000*

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

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(Continued)

SHAWNEE STATE UNIVERSITY  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 June 30, 2004 and 2003

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**NOTE 5 - RISK MANAGEMENT (Continued)**

Effective October 1995, the University elected to become partially self-insured for certain employee health benefit programs. Funding for these programs is based on actuarial projections provided by the plan administrators. Aggregate stop loss insurance is maintained for benefit payments that exceed the maximum limits outlined in the policy. The claims liability of \$950,000 reported in the enterprise fund at June 30, 2004 is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. No incremental claim adjustment expenses are included in the estimate.

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

	Balance at Beginning of Year	Current Year Claims	Claims Payments	Balance at End of Year
2002	\$ 796,759	\$ 2,785,643	\$ 2,785,643	\$ 796,759
2003	796,759	2,727,794	2,727,794	796,759
2004	796,759	3,682,675	3,529,434	950,000

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

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

**NOTE 6 - GRANTS AND CONTRACTS**

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

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(Continued)

SHAWNEE STATE UNIVERSITY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2004 and 2003

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**NOTE 7 - RETIREMENT PLANS**

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

The Ohio General Assembly legislation gives public employers in Ohio the option of establishing an early retirement incentive plan for members for STRS Ohio and OPERS. As of June 30, 2004, the University has not authorized such a plan.

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

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rates are 8.5% for employees other than law enforcement. The 2004 employer contribution rate for local government employers was 13.31%. The University's contributions to OPERS for the years ending June 30, 2002, 2003, and 2004, were \$967,404, \$991,443, and \$1,045,431 respectively, which are equal to the required contributions for each year.

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

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(Continued)

SHAWNEE STATE UNIVERSITY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2004 and 2003

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**NOTE 7 - RETIREMENT PLANS** (Continued)

Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by STRS Ohio, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Plan members are required to contribute 10% of their annual covered salary and the University is required to contribute 14%. The University's contribution for pension obligations to STRS Ohio for the fiscal years ending June 30, 2002, 2003, and 2004 was \$1,072,622, \$1,105,005, and \$1,188,485 respectively. 100% has been contributed for all three fiscal years.

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

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

Effective July 1, 2003, an employee in a STRS Ohio eligible position contributes 10% of their earned income to their ARP account. The University contributes 14%. For the period July 1, 2003 through June 30, 2004, 10.5% of this amount was paid into the member's ARP account. The remaining 3.5% was paid to STRS Ohio, as required by state legislation, to cover un-funded liabilities. The employee receives no benefits from STRS Ohio for the 3.5% contributed by the employer.

An employee in an OPERS eligible position, contributes 8.5% of their earned income and the University contributes 13.31%. The entire 13.31% is paid to the member's ARP account.

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

As of June 30, 2004, there are approximately 39 active participants in an ARP. The University's contribution for employees enrolled in ARP accounts for fiscal year 2004 was \$245,346.

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(Continued)

SHAWNEE STATE UNIVERSITY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2004 and 2003

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**NOTE 8 - POSTEMPLOYMENT BENEFITS**

Ohio Public Employees Retirement System: The Public Employees Retirement System of Ohio (OPERS) provides post-retirement health care coverage to age and service retirants with 10 or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit (OPEB) as described in GASB Statement 12. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care. The Ohio Revised code provides statutory authority requiring public employers to fund health care through their contributions to OPERS. The 2003 employer contribution rate for state employers was 13.31% of covered payroll; 4.3% was the portion that was used to fund health care for the year.

The University's fiscal year 2004 employer contributions to OPERS total \$1,045,431. Of this amount, \$392,724 was used to fund health care for the year for employees. This represents 4.3% of the covered current year payroll.

The following assumptions and calculations were based on the System's latest Actuarial Review performed as of December 31, 2002. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2002 was 8.0%. An annual increase of 4.0% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase between 6.5% and 11% from 2003 through 2011. Years 2012 and after are assumed to increase at a level of 4.0%.

OPEBs are advanced funded on an actuarially determined basis. The number of active contributing participants was 368,996. \$10.8 billion represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2003. The actuarially accrued liability and unfunded actuarial accrued liability, based on the actuarial cost method used, were \$50.9 billion and \$7.2 billion, respectively.

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(Continued)

SHAWNEE STATE UNIVERSITY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2004 and 2003

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**NOTE 8 - POSTEMPLOYMENT BENEFITS (Continued)**

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

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year 2003 and after, the Board has allocated 1.0% of contributions toward health care. The balance in the Health Care Stabilization Fund was \$2.8 billion on June 30, 2003. For the University, this amount equaled \$84,892 during fiscal year 2004.

For the fiscal year ended June 30, 2003, net health care costs paid by STRS Ohio were \$456,214,000. There were 108,294 eligible benefit recipients.

**NOTE 9 - COMPENSATED ABSENCES**

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

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

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(Continued)

SHAWNEE STATE UNIVERSITY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2004 and 2003

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**NOTE 10 - LONG-TERM OBLIGATIONS**

The changes in the University's long-term obligations during fiscal year 2004 were as follows:

	Principal Outstanding <u>06/30/03</u>	<u>Additions</u>	<u>Deductions</u>	Principal Outstanding <u>06/30/04</u>	Amounts Due in One <u>Year</u>
1989 General Receipts Bonds, Series A	\$ 1,535,000	\$ --	\$ 215,000	\$ 1,320,000	\$ 230,000
1996 General Receipts Bonds, Series B	1,375,000	--	95,000	1,280,000	100,000
Compensated Absences	<u>1,425,248</u>	<u>237,132</u>	<u>4,074</u>	<u>1,658,306</u>	<u>165,831</u>
Total Long Term Liabilities	<u>\$ 4,335,248</u>	<u>\$ 237,132</u>	<u>\$ 314,074</u>	<u>\$ 4,258,306</u>	<u>\$ 495,831</u>

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

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

Total interest expense incurred on indebtedness for the year ended June 30, 2004 and 2003 is \$188,559 and \$207,693.

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(Continued)

SHAWNEE STATE UNIVERSITY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2004 and 2003

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**NOTE 10 - LONG-TERM OBLIGATIONS (Continued)**

Principal and interest amounts due within each of the next five years and thereafter on Series A bond obligations outstanding at June 30, 2004 are as follows:

<u>Year Ended June 30,</u>	<u>Series A</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 230,000	\$ 93,720	\$ 323,720
2006	245,000	77,390	322,390
2007	265,000	59,995	324,995
2008	280,000	41,180	321,180
2009	300,000	21,300	321,300
Total	<u>\$ 1,320,000</u>	<u>\$ 293,585</u>	<u>\$ 1,613,585</u>

Principal and Interest amounts due within each of the next five years and thereafter on Series B bond obligations outstanding at June 30, 2004 are as follows:

<u>Year Ended June 30,</u>	<u>Series B</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 100,000	\$ 76,100	\$ 176,100
2006	100,000	70,500	170,500
2007	110,000	64,800	174,800
2008	115,000	58,200	173,200
2009	120,000	51,300	171,300
Thereafter	735,000	137,400	872,400
Total	<u>\$ 1,280,000</u>	<u>\$ 458,300</u>	<u>\$ 1,738,300</u>

**NOTE 11 - LEASES**

The University's operating leases consist of real property and movable equipment. Total expenditures during 2004 and 2003 under operating leases amounted to approximately \$11,477 and \$24,437.

Future minimum payments on the non-cancelable operating leases subsequent to June 30, 2004 are as follows:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2005	\$ 7,836
2006	<u>1,762</u>
Total future minimum payments	<u>\$ 9,598</u>

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(Continued)

SHAWNEE STATE UNIVERSITY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2004 and 2003

**NOTE 12 - CAPITAL ASSETS**

Capital Asset activity for the fiscal year ended June 30, 2004, was as follows:

	Restated Balance <u>06/30/03</u>	Reclass and <u>Additions</u>	<u>Reductions</u>	Balance <u>06/30/04</u>
Capital assets, not being depreciated				
Land	\$ 7,351,987	\$ 182,065	\$ --	\$ 7,534,052
Land improvements	6,914,202	14,430	--	6,928,632
Library books	4,049,789	66,093	(30,525)	4,085,357
Construction in progress	<u>98,232</u>	<u>37,136</u>	<u>(98,232)</u>	<u>37,136</u>
Total capital assets, not being depreciated	<u>18,414,210</u>	<u>299,724</u>	<u>(128,757)</u>	<u>18,585,177</u>
Capital assets being depreciated				
Buildings and improvements	64,277,384	466,678	--	64,744,062
Equipment	<u>5,149,123</u>	<u>701,495</u>	<u>(82,999)</u>	<u>5,767,619</u>
Total capital assets, being depreciated	<u>69,426,507</u>	<u>1,168,173</u>	<u>(82,999)</u>	<u>70,511,681</u>
Less accumulated depreciation				
Buildings and improvements	(17,464,192)	(1,331,247)	--	(18,795,439)
Equipment	<u>(3,286,542)</u>	<u>(545,367)</u>	<u>75,764</u>	<u>(3,756,145)</u>
Total accumulated depreciation	<u>(20,750,734)</u>	<u>(1,876,614)</u>	<u>75,764</u>	<u>(22,551,584)</u>
Total capital assets, being depreciated, net	<u>48,675,773</u>	<u>(708,441)</u>	<u>(7,235)</u>	<u>47,960,097</u>
Capital assets, net	<u>\$ 67,089,983</u>	<u>\$ (408,717)</u>	<u>\$ (135,992)</u>	<u>\$ 66,545,274</u>

**NOTE 13 - CONTINGENCIES**

Grants

The University received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the unrestricted or restricted educational and general funds or other applicable funds. However, in the opinion of management, any such disallowed claims would not have a material adverse effect on the overall financial position of the University at June 30, 2004.

(Continued)

SHAWNEE STATE UNIVERSITY  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2004 and 2003

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**NOTE 13 - CONTINGENCIES (Continued)**

Litigation

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

**NOTE 14 - COMPONENT UNIT DISCLOSURE**

The accompanying financial statements of the Foundation have been prepared in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. 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.

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

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

The fair value of investments at June 30, 2004 and 2003, by classification is as follows:

	<u>2004</u>	<u>2003</u>
U.S. Treasury and agency obligations	\$ 1,779,515	\$ 1,465,935
Mutual funds	2,366,893	4,151,687
Common stocks	<u>4,937,777</u>	<u>2,422,375</u>
	<u>\$ 9,084,185</u>	<u>\$ 8,039,997</u>

During the year ended June 30, 2004 the Foundation made distributions of \$385,350 to or on behalf of the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Shawnee State University Development Foundation, Inc. at 940 Second Street, Portsmouth, Ohio, 45662.

**SUPPLEMENTARY INFORMATION**

SHAWNEE STATE UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
June 30, 2004

Federal Grantor/ Pass-Through Grantor/ <u>Program Title</u>	Federal CFDA <u>Number</u>	Pass through Entity identifying <u>Number</u>	<u>Expenditures</u>
<u>U.S. Department of Education</u>			
Student Financial Assistance Cluster:			
Federal Supplemental Educational Opportunity Grants	84.007		\$ 152,539
Federal Work Study	84.033		270,090
Federal Pell Grant Program	84.063		5,142,837
Federal Family Education Loan Program	84.032		<u>9,774,403</u>
Total Student Financial Aid Cluster			<u>15,339,869</u>
TRIO Cluster:			
Student Support Services	84.042		263,388
Talent Search	84.044		277,868
Upward Bound	84.047A		273,577
Upward Bound Math Science	84.047M		206,464
Upward Bound Veterans	84.047		126,842
Educational Opportunity Centers	84.066		<u>371,214</u>
Total TRIO Cluster			<u>1,519,353</u>
Disabled Veterans Scholarship	84.064		79,900
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334		320,465
Children's Learning Center Department of Education	84.335		20,304
<i>Passed through the Ohio Department of Education</i>			
Adult Education: State Grant Program	84.002	AB-S1	100,589
Higher Education: Institutional Aid (Title III)	84.031		232,117
Vocational Education: Basics Grants to States (Perkins)	84.048	20-C2	82,902
Twenty-first Century - After School Malls	84.287C		410,163
Paraprofessional Education Grant	84.367		7,823
Tech Prep Education	84.243	3E-OO	108,753
<i>Pass-through Scioto County JVS</i>			
Higher Skills Partnership	17.258		15,594
Twenty-first Century Community Learning Center	84.287A		<u>212,703</u>
Total U.S. Department of Education			<u>18,450,535</u>

(Continued)

SHAWNEE STATE UNIVERSITY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 June 30, 2004

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Federal Grantor/ Pass-Through Grantor/ <u>Program Title</u>	<u>Federal CFDA Number</u>	Pass through Entity identifying <u>Number</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture</u>			
<i>Pass-through the Ohio Dept of Education</i>			
Child and Adult Care Food Program	10.551	16-CU, 21-CU, 21- FU	\$ <u>8,297</u>
Total U.S. Department of Agriculture			<u>8,297</u>
<u>U.S. Department of Labor</u>			
<i>Passed through the Ohio School to Work</i>			
School to Work	17.249	WK-BE	<u>52,975</u>
Total U.S. Department of Labor			<u>52,975</u>
Total Federal Expenditures			<u>\$ 18,511,807</u>

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SHAWNEE STATE UNIVERSITY  
NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
For The Year ended June 30, 2004

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

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

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

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

For fiscal year 2004, the University received a waiver from the Department of Education for the Institutional Share Requirement under the Federal Work-Study and Federal SEOG programs.

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

The following information represents the value of new loans made during the fiscal year ending June 30, 2004 to students of Shawnee State University that the University processed under the Federal Family Education Loan Program (FFEL) (which includes Federal Stafford Loans, Federal Parents' Loans for Undergraduate Students and Federal Supplement Loans for Students):

	<u>CFDA</u> <u>Number</u>	<u>2004</u> <u>Amount</u>
Federal Family Education Loan Program	84.032	\$9,774,403

SHAWNEE STATE UNIVERSITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year ended June 30, 2004

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1. Summary of Auditor's Results

- a. An unqualified opinion was issued on the consolidated financial statements of Shawnee University for the year ended June 30, 2004.
- b. An unqualified opinion was issued to Shawnee University for compliance with major programs.
- c. The audit did not disclose any noncompliance that is material to the financial statements.
- d. There were audit findings required to be disclosed under OMB Circular A-133 Section 510(a).
- e. Major Programs Identified:

U.S. Department of Education  
Student Financial Aid Cluster: Federal Pell Grants 84.063, Federal Supplemental Educational Opportunity Grants 84.007, Federal Work Study 84.033, Federal Family Education Loans 84.063.

Gaining Early Awareness and Readiness for Undergraduate Programs

Twenty-First Century Community Learning Centers-After School Malls

- f. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
  - g. The auditee was considered a low-risk auditee.
2. Findings related to financial statements which are required to be reported in accordance with GAGAS:

As of and for the year ended June 30, 2004, there were no material reportable conditions, weaknesses, or instances of noncompliance related to the financial statements, except as noted in the next item.

3. Findings and questioned costs for federal awards including audit findings as described in OMB Circular A-133 Section 510(a).

Finding 04-1

Federal program information: Federal Pell Grants 84.063, Federal Supplemental Educational Opportunity Grant 84.007, Federal Work-Study 84.033, and Federal Family Education Loans 84.063.

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(Continued)

SHAWNEE STATE UNIVERSITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year ended June 30, 2004

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Finding 04-1 (Continued)

Criteria:	Return of Title IV funds must be calculated in accordance with the Higher Education Amendment of 1998 (Public Law 105-244).
Condition:	The University did not correctly calculate the amount of Title IV funds to be returned in some withdrawal cases.
Questioned Costs:	In the five instances where the return of Title IV funds were calculated incorrectly, the University overcalculated the return of institutional funds by \$1,233 and undercalculated the return of student funds by \$1,689.
Context:	In a sample of 33 students withdrawing from the University, five students received an incorrect calculation for the return of Title IV funds.
Recommendation:	The University should implement procedures to verify the accuracy of the Title IV return of funds calculations.
Management's response:	There were extenuating circumstances in the Financial Aid office. An employee in Financial Aid was doing R2T4 calculations while the regular staff person was out on extended sick leave. The audit review process was on a later timeline in prior years. The FA Director had not completed her review of this process and was not able to make necessary adjustments prior to the audit review. Management agrees with the review analysis and all student accounts were corrected before closing the fiscal year on June 30, 2004. Staff has been cross-trained and management will strengthen the review process.

**PRIOR YEAR FINDINGS**

No findings or questioned costs for federal awards including audit findings as defined in OMB Circular A-133 Section 510(a) were reported in the prior audit period.



**Crowe Chizek and Company LLC**  
Member Horwath International

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

Board of Trustees  
Shawnee State University  
Portsmouth, Ohio

We have audited the financial statements of Shawnee State University (the University) as of and for the year ended June 30, 2004, and have issued our report thereon dated October 7, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

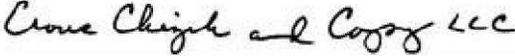
**Compliance**

As part of obtaining reasonable assurance about whether the University's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are discussed in the accompanying schedule of findings and questioned costs as Finding 04-1.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over the financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted matters involving internal controls over financial reporting which we have reported to management of Shawnee State University in a separate letter dated October 7, 2004.

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

  
Crowe Chizek and Company LLC

Columbus, Ohio  
October 7, 2004



Crowe Chizek and Company LLC  
Member Horwath International

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE  
WITH THE REQUIREMENTS APPLICABLE TO EACH MAJOR  
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustees  
Shawnee State University  
Portsmouth, Ohio

**Compliance**

We have audited the compliance of Shawnee State University (the University) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal program for the year ended June 30, 2004. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal program is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

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

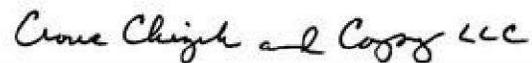
In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal program for the year ended June 30, 2004. However, the results of our auditing procedures discussed instances of noncompliance with those requirements, which are to be reported in accordance with OMB Circular A-133 and which are discussed in the accompanying schedule of findings and questioned costs as Finding 04-1.

### **Internal Control Over Compliance**

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted matters involving internal control over financial reporting which we reported to the management of the University in a separate letter dated October 7, 2004.

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



Crowe Chizek and Company LLC

Columbus, Ohio  
October 7, 2004



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**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 28, 2004**