

SHAWNEE STATE UNIVERSITY
Portsmouth, Ohio

FINANCIAL STATEMENTS
June 30, 2010 and 2009



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Report of Independent Auditors on Financial Statements* of the Shawnee State University, Scioto County, prepared by Crowe Horwath LLP, for the audit period July 1, 2009 through June 30, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Shawnee State University is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

November 24, 2010

This Page is Intentionally Left Blank.

SHAWNEE STATE UNIVERSITY

Portsmouth, Ohio

FINANCIAL STATEMENTS

June 30, 2010 and 2009

CONTENTS

REPORT OF INDEPENDENT AUDITORS ON FINANCIAL STATEMENTS.....	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
STATEMENTS OF NET ASSETS – UNIVERSITY	11
STATEMENTS OF FINANCIAL POSITION – FOUNDATION	13
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS – UNIVERSITY.....	14
STATEMENTS OF ACTIVITIES – FOUNDATION.....	15
STATEMENTS OF CASH FLOWS – UNIVERSITY	17
NOTES TO FINANCIAL STATEMENTS	19
SUPPLEMENTARY INFORMATION	
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	35
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	37
REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	38
REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	40
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	42



Crowe Horwath LLP
Independent Member Crowe Horwath International

REPORT OF INDEPENDENT AUDITORS ON FINANCIAL STATEMENTS

Board of Trustees
Shawnee State University
Portsmouth, Ohio

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Shawnee State University ("the University"), a component unit of the State of Ohio, as of June 30, 2010 and 2009, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial positions of the business-type activities and discretely presented component unit of the University, as of June 30, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2010 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

(Continued)

The Management's Discussion and Analysis on pages 3 - 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Crowe Horwath LLP

Crowe Horwath LLP

Columbus, Ohio
October 15, 2010

(Continued)

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

This section of Shawnee State University's annual financial report presents a discussion and analysis of the financial performance of the University during the fiscal year ended June 30, 2010. This discussion, prepared by University management, provides an overview of the University's financial activities and should be evaluated in conjunction with the accompanying financial statements and footnotes.

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

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

Financial Highlights

Key financial highlights for 2010 are as follows:

- Total net assets increased \$2,174,122.
- Total assets decreased \$161,444. Current assets decreased \$7,894,274 and non-current assets (excluding capital assets) increased \$1,304,700 primarily as the result of the utilization of the 2007 Bond Series funds to meet construction costs related to the University Center renovation project. Construction related to the expansion of the University's Student Center is a significant factor in the net capital assets increase of \$6,428,130.
- Total liabilities decreased \$2,335,566; current liabilities decreased \$1,646,042 and non-current liabilities decreased \$689,524.
- Total revenue increased \$4,968,564 from 2009 to 2010 compared with a \$2,852,134 increase from 2008 to 2009.
- Total expenses increased \$1,968,004 from 2009 to 2010 as compared with \$3,264,656 from 2008 to 2009.
- Non-operating revenue increased \$5,062,195 primarily as a result of increased investment revenue.

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.

(Continued)

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

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

The Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets present information about the University and its activities in a way that helps answer the question, "How did Shawnee State University do financially during 2010?" The Statement of Net Assets includes all short-term and long-term assets and liabilities, both financial and capital. The accrual basis of accounting is used for the recording of revenue and expenses. This basis of accounting records revenue when earned and expenses when incurred, regardless of when the cash is actually received or paid.

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

STATEMENT OF NET ASSETS

The Statement of Net Assets, which reports all assets and liabilities of the University, reflects the financial position of the University at the end of the fiscal year. Total assets minus total liabilities equal net assets. The University's assets, liabilities, and net assets as of June 30, 2010, 2009, and 2008 are presented below:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets:			
Current assets	\$ 11,115,524	\$ 19,009,798	\$ 9,513,208
Capital assets, net	88,071,924	81,643,794	69,866,891
Non-current assets	<u>16,552,816</u>	<u>15,248,116</u>	<u>33,555,997</u>
Total assets	<u>115,740,264</u>	<u>115,901,708</u>	<u>112,936,096</u>
Liabilities:			
Current liabilities	6,850,260	8,496,302	6,625,167
Non-current liabilities	<u>20,346,715</u>	<u>21,036,239</u>	<u>19,115,324</u>
Total liabilities	<u>27,196,975</u>	<u>29,532,541</u>	<u>25,740,491</u>
Net Assets:			
Invested in capital assets, net of related debt	72,096,794	71,129,700	68,801,722
Restricted, expendable	512,843	881,098	985,770
Unrestricted	<u>15,933,652</u>	<u>14,358,369</u>	<u>17,408,113</u>
Total net assets	<u>\$ 88,543,289</u>	<u>\$ 86,369,167</u>	<u>\$ 87,195,605</u>

Total assets of the University decreased \$161,444 in 2010. Current assets decreased \$7,894,274 and non-current assets (excluding capital assets) increased \$1,304,700. The decrease in current assets in 2010 is predominantly attributable to the use of 2007 Bond Series funds to meet construction costs related to the University Center renovation project. Net assets increased \$2,174,122. Total liabilities decreased \$2,335,566 as compared to an increase in 2009 of \$3,792,050 and a decrease of \$48,862 in 2008 primarily attributable to the new bond series. Current liabilities decreased \$1,646,042 in 2010 from 2009 due to the reduction of pending payments to University Center renovation contractors at year end. The decrease of \$689,524 in 2010 from 2009 in non-current liabilities is attributable to the reduction in bonds payable and deferred revenue related to the University Center project.

(Continued)

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The statement of revenues, expenses and changes in net assets presents the results of operations for the University. The change in net assets during the fiscal year is a measurement of the change in the overall financial condition of the University. The University's revenues, expenses, and changes in net assets for fiscal years ended June 30, 2010, June 30, 2009 and June 30, 2008 are as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating revenues			
Tuition, fees, and other student charges	\$ 20,431,305	\$ 18,742,448	\$ 18,765,787
Grants and contracts	4,870,064	4,746,239	4,433,028
Sales and services	1,738,558	1,656,337	1,574,119
Other income	357,222	454,089	453,241
Non-operating revenues			
Investment income	1,388,600	(1,536,654)	86,647
State appropriations	15,172,781	17,448,098	16,285,402
State appropriations – State Fiscal Stabilization Funds	2,056,558		
Other grants	14,292,001	11,936,301	10,231,845
Capital appropriations	<u>630,153</u>	<u>2,521,820</u>	<u>1,286,475</u>
Total revenues	<u>60,937,242</u>	<u>55,968,678</u>	<u>53,116,544</u>
Operating expenses			
Instruction and research	21,029,373	19,813,592	19,000,872
Public service	3,456,141	3,568,800	3,213,866
Academic support	2,747,627	2,869,845	2,898,017
Student services	3,805,205	3,822,169	3,826,614
Institutional support	8,066,606	8,101,718	6,970,722
Operation and maintenance of plant	4,848,292	4,729,566	4,533,103
Scholarships	6,730,334	6,472,193	5,899,007
Depreciation	2,603,891	2,472,708	2,352,265
Auxiliary enterprises	5,444,932	4,907,936	4,757,810
Non-operating expenses			
Loss on disposal of fixed assets	18,970	24,840	25,839
Amortization of debt issuance cost	<u>11,749</u>	<u>11,749</u>	<u>52,345</u>
Total expenses	<u>58,763,120</u>	<u>56,795,116</u>	<u>53,530,460</u>
Increase (decrease) in net assets	<u>\$ 2,174,122</u>	<u>\$ (826,438)</u>	<u>\$ (413,916)</u>

Shawnee State University is dedicated to its mission of providing higher education that fosters competence in oral and written communication, scientific and quantitative reason, and critical analysis/logical thinking. To enrich the lives of the community, the University provides opportunities for continuing personal and professional development, intellectual discovery, and appreciation for the creative and performing arts. The University charges students tuition and fees in accordance with approved University policy, as constrained by State laws. Based on State regulations, rates charged for in-state tuition and fees increased 3.5% effective Spring 2010 semester.

(Continued)

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

During 2010, the University generated revenues from tuition and fees in excess of \$20.4 million and had total expenses of approximately \$58.8 million. During 2010, investment income amounted to a positive \$1,388,600 as compared to a negative \$1,536,654 during 2009 and a positive \$86,647 during 2008. The increase in investment markets in general is mirrored in the University's increase in investment income.

Other Grants experienced a 19.7% increase. Income from federal aid programs such as Pell, SEOG, and TEACH amounted to \$11.2 million in 2010 as compared with \$7.6 million in 2009.

The 6.1% increase in Instruction and Research expense from \$19,813,592 in 2009 to \$21,029,373 in 2010 is primarily attributable to additional salaries and benefits to accommodate the University's increased student enrollment. The 10.9% increase in Auxiliary Enterprises expense from \$4,907,936 in 2009 to \$5,444,932 in 2010 predominantly relates to additional costs attributable to the increase of students residing in new campus residence halls. The increase has raised meal plan and University residence hall staffing expenses. Additional Auxiliary Enterprises expenses are attributable to filling vacant Athletic Department positions and increased expenditures related to the expansion of the University Center.

State appropriations represent 28.3% of the University's total revenue in 2010, 31.2% in 2009 and 30.7% in 2008. State Fiscal Stabilization funds comprise approximately 12% of total State appropriations. These percentages illustrate that tuition and fee revenue alone is not sufficient to cover relevant operational expenses. The University is dependent upon a predictable and relatively stable level of state appropriation funding.

Based upon updated GASB implementation guidelines, Pell Grants and certain other grants are considered non-exchange transactions and therefore are reflected as non-operating activity. These grants represent 23.5% of the University's total revenue in 2010, 21.3% in 2009 and 19.3% in 2008.

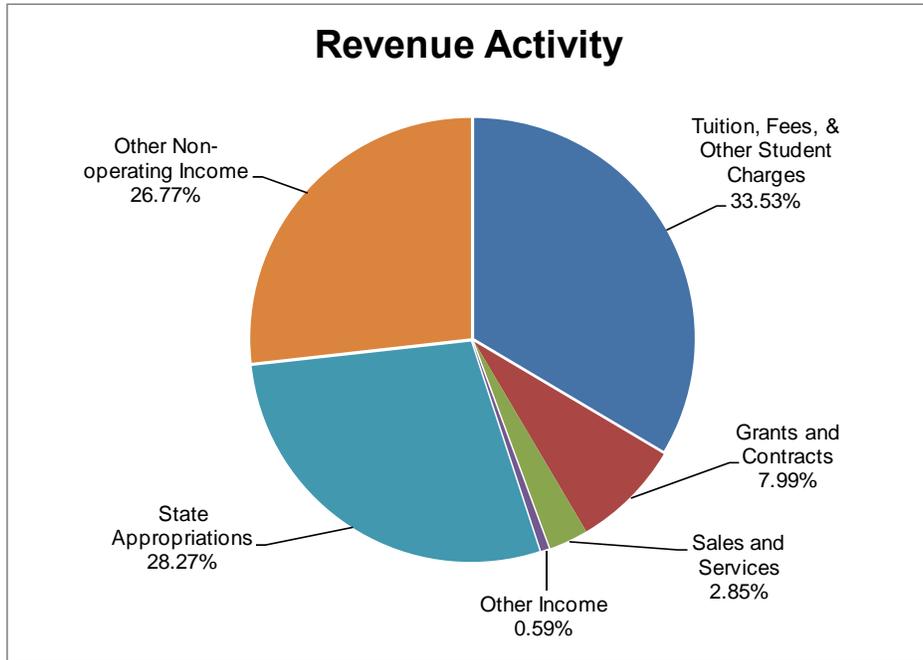
Capital appropriations decreased \$1,891,667 from 2009 to 2010. The majority of the 2010 capital appropriations were related to the University Student Center Expansion Project and land acquisitions. In 2009 a substantial portion of state funds were appropriated for Facilities Office renovations, completion of the Rhodes Center project, and architectural services related to the University Student Center expansion. During 2008 state funds were allocated for various renovation projects with the largest being the Rhodes Center.

The following graphs summarize Shawnee State University's revenue and expense activity for the fiscal year ending June 30, 2010.

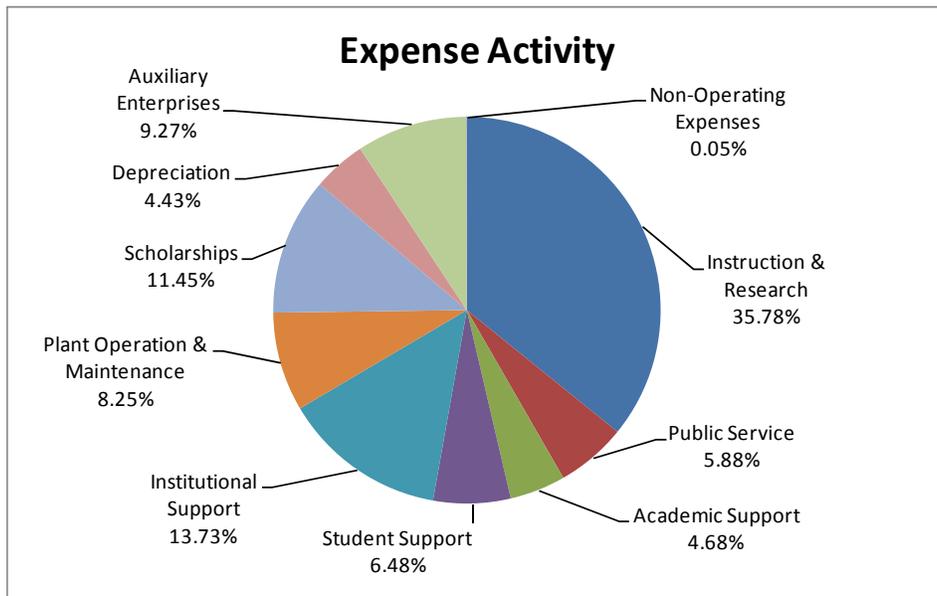
(Continued)

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

Graph 1
Revenue Activity



Graph 2
Expense Activity



(Continued)

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

STATEMENT OF CASH FLOWS

The statement of cash flows provides information about the University's financial condition by reporting the cash sources (receipts) and the cash uses (payments) during the fiscal year ending June 30, 2010. A comparison of cash sources and uses during fiscal years 2010, 2009 and 2008 is presented below:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
<u>Cash provided (used) by:</u>			
Operating activities	\$ (30,597,185)	\$ (27,311,988)	\$ (25,383,801)
Non-capital financing activities	31,537,753	29,349,428	26,497,900
Capital and related financing activities	(9,172,038)	(9,821,795)	(4,591,267)
Investing activities	<u>7,377,112</u>	<u>7,814,430</u>	<u>3,006,814</u>
Net increase (decrease) in cash and cash equivalents	(854,358)	30,075	(470,354)
Cash and cash equivalents –			
Beginning of the year	4,384,943	4,354,868	4,825,222
End of the year	<u>\$ 3,530,585</u>	<u>\$ 4,384,943</u>	<u>\$ 4,354,868</u>

Cash and cash equivalents decreased by \$854,358 from 2009 to 2010, compared to a increase of \$30,075 from 2008 to 2009 mainly due to increased spending of funds related to the University Center expansion project.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2010, the University had \$88,071,924 in net capital assets. This reflects an overall increase of \$6,428,130 in net capital assets from 2009.

Capital assets, net of depreciation
At June 30,

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Land	\$ 7,934,297	\$ 7,768,581	\$ 7,597,752
Land Improvements	6,928,632	6,928,631	6,928,632
Buildings and Improvements	46,712,394	45,641,872	46,274,764
Equipment	3,608,117	2,982,834	2,731,104
Library Books	4,593,108	4,538,611	4,475,673
Construction in Progress	<u>18,295,376</u>	<u>13,783,265</u>	<u>1,858,966</u>
Totals	<u>\$ 88,071,924</u>	<u>\$ 81,643,794</u>	<u>\$ 69,866,891</u>

(Continued)

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

Debt Administration

At June 30, 2010, the University had one outstanding General Revenue Bonds Payable totaling \$17,015,000; \$510,000 of which is due within one year. This reflects an overall decrease of \$500,000 in the General Revenue Bonds Payable liability from 2009.

Outstanding Debt at Year End

	<u>2010</u>	<u>2009</u>	<u>2008</u>
General Revenue Bonds Payable:			
4.0% to 5.0% - Series 2007	<u>\$ 17,015,000</u>	<u>\$ 17,515,000</u>	<u>\$ 17,765,000</u>

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

Current Financial Issues and Concerns

Shawnee State experienced a positive FY10 financial performance largely due to record enrollment growth and improved retention, recovery of investment performance, adoption of tuition and fee increases (as permitted by the state), and continued institutional cost-containment measures. These factors were offset by the incremental increases in instructional staffing costs associated with the enrollment growth, expenditures realized for new and renovated academic and student business facilities, ongoing costs tied to compliance with unfunded federal and statewide regulatory mandates, and shifting of operational resources to meet goals of the University System of Ohio and Higher Education Opportunity Act.

Given the year-end results, Shawnee State's financial status as measured by Ohio's public university fiscal assessment via Senate Bill 6 ("SB 6") is anticipated to improve for FY10 over FY09. And, while the previous two fiscal years (FY08 and FY09) took a significant toll upon the University's reserve balance, the FY10 investment portfolio performance and the full funding of the projected state share of instruction (SSI) were pivotal to realizing the better outcome. Still, the overarching factor in the University's financial condition is the pattern of record enrollments and significant increases in residential students. The difficult spending decisions that have been required throughout this economic downturn have been driven by the need to sustain this student-growth momentum. Specifically, the FY10 budgetary priorities targeted initiatives that added instructional staffing to cover increased course demands and student service staff to accommodate student life needs, provided additional classroom and lab space, continued efforts to modernize student business services, responded to technology and equipment needs, and invested in the safety and security of the campus. The investment in these fundamental needs is viewed as essential to the institution's continued growth.

Evidence of the University's continuing commitment to operational efficiencies is illustrated by the results of two assessment efforts during this fiscal period. Information Technology and Facilities operations underwent separate evaluations. Both of these efforts were sponsored by the state (OARNET and USO Chancellor for IT and the Board of Regents for facilities). Both operations were found to be efficient in the areas examined compared to peer institutions and Ohio public universities. These studies also revealed that Shawnee has a high density environment (i.e., number of students having access to campus), a highly technical factor (i.e., nature of academic programs), future maintenance deferral needs, and increased demand for advanced technology.

(Continued)

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

As with all other Ohio public universities, Shawnee State continues to contend with an uncertain state revenue picture. After enduring a difficult and protracted legislative budget adoption process for the 2010 - 2011 biennium indications are that the upcoming 2012 - 2013 biennium budget promises even greater uncertainty. An early indicator of the possible jeopardy of future state revenue is the Ohio Board of Regents' deferral of 2-yr and 4-yr colleges' and universities' June 2011 SSI payment to July 2011. This action is in response to a significant statewide revenue shortfall for the fiscal year. For Shawnee State, this translates to a 6.3% reduction or \$962,453 in projected FY11 SSI revenue. Notwithstanding the political and legal arguments related to this particular action, there is potential for even more significant negative revenue implications in the next biennium. One of the gravest of these is the probable reduction of the 2009 American Recovery and Reinvestment Act (ARRA) federal stimulus funds affecting the state's ability to fully fund its SSI formula pool for the upcoming biennium. While the amount of reduction is unknown, the magnitude of this issue is illustrated when considering that \$2.3 million or 15.4% of Shawnee's FY11 state revenue is funded by these ARRA monies. Lastly, for Shawnee, any fiscally-challenged state budget process exposes our special supplement (currently \$2.6 million) to greater scrutiny by legislators.

In light of the lasting economic challenges, Shawnee State's leaders and stakeholders are convinced that being prepared and poised for growth is crucial to our financial health. We also are steadfast in our conservative budgetary methodology and controlled spending strategies. Cost-containment measures followed in FY10 have been continued into FY11 and will be modified as we face the upcoming unstable fiscal environment. Some measures that will continue include scrutinizing all vacancies before replacing personnel, responding to organizational needs by realigning job duties and responsibilities where feasible, gaining greater flexibility by establishing broadly categorized contingency accounts for major expenditures, and the continued active executive and presidential engagement in defining institutional needs.

Although the above belt-tightening actions have become the norm, Shawnee State continues to affirmatively respond to the applicable University System of Ohio goals, supports statewide and local efforts to constrain costs, initiates and participates fully in partnerships and collaborations, and serves as a stimulus to the local and regional economy. These worthwhile endeavors are achieved while holding fast to our primary goal of accomplishing our educational mission.

SHAWNEE STATE UNIVERSITY
STATEMENTS OF NET ASSETS
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,530,585	\$ 4,384,943
Short-term investments	<u>2,479,165</u>	<u>9,645,318</u>
Total cash and short-term investments	6,009,750	14,030,261
Receivables		
Accounts (net of allowance for doubtful accounts of \$1,082,053 in 2010 and \$902,501 in 2009, respectively)	4,642,485	4,609,537
Notes	76,472	52,759
Amounts due from primary government	189,218	72,228
Interest receivable	8,607	25,181
Inventory	52,033	38,198
Deferred charges	11,749	11,749
Prepaid items	<u>125,210</u>	<u>169,885</u>
Total current assets	11,115,524	19,009,798
Non-current assets		
Investments	16,282,587	14,966,139
Deferred charges	270,229	281,977
Capital assets, net	<u>88,071,924</u>	<u>81,643,794</u>
Total non-current assets	<u>104,624,740</u>	<u>96,891,910</u>
Total assets	<u>\$ 115,740,264</u>	<u>\$ 115,901,708</u>

(Continued)

SHAWNEE STATE UNIVERSITY
STATEMENTS OF NET ASSETS
June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 925,270	\$ 2,953,081
Accrued wages and benefits	3,353,491	3,254,823
Compensated absences payable	189,422	185,453
Bonds payable	510,000	500,000
Accrued interest payable	66,967	68,633
Deferred revenue	1,581,005	1,326,620
Deposits held by and due to others	<u>224,105</u>	<u>207,692</u>
Total current liabilities	<u>6,850,260</u>	<u>8,496,302</u>
Non-current liabilities		
Compensated absences payable	1,704,802	1,669,074
Deferred revenue	2,136,913	2,352,165
Bonds payable	<u>16,505,000</u>	<u>17,015,000</u>
Total non-current liabilities	<u>20,346,715</u>	<u>21,036,239</u>
Total liabilities	<u>27,196,975</u>	<u>29,532,541</u>
Net assets		
Invested in capital assets, net of related debt	72,096,794	71,129,700
Restricted		
Expendable		
Loans	112,983	113,026
Other	399,860	768,072
Unrestricted	<u>15,933,652</u>	<u>14,358,369</u>
Total net assets	<u>88,543,289</u>	<u>86,369,167</u>
Total liabilities and net assets	<u>\$ 115,740,264</u>	<u>\$ 115,901,708</u>

See accompanying notes to financial statements.

SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION
 STATEMENTS OF FINANCIAL POSITION
 June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and cash equivalents	\$ 1,717,968	\$ 2,310,261
Investments	10,623,465	8,970,184
Contributions receivable, net	1,152,807	968,071
Contracts receivable	-	50,000
Beneficial interest in trusts held by others	1,007,884	1,014,952
Other assets	<u>169,780</u>	<u>157,949</u>
Total assets	<u>\$ 14,671,904</u>	<u>\$ 13,471,417</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 7,965	\$ 6,630
Deposits held and due to others	94,489	70,212
Annuity payment liability	462,102	473,852
Due to Shawnee State University	<u>-</u>	<u>200,000</u>
Total liabilities	<u>564,556</u>	<u>750,694</u>
Net assets		
Unrestricted	(565,252)	(962,880)
Temporarily restricted	7,189,937	6,874,459
Permanently restricted	<u>7,482,663</u>	<u>6,809,144</u>
Total net assets	<u>14,107,348</u>	<u>12,720,723</u>
Total liabilities and net assets	<u>\$ 14,671,904</u>	<u>\$ 13,471,417</u>

See accompanying notes to financial statements.

SHAWNEE STATE UNIVERSITY
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
REVENUES		
Operating revenues		
Student tuition and fees (net of scholarship allowances of \$10,968,770 in 2010 and \$8,509,877 in 2009)	\$ 20,431,305	\$ 18,742,448
Federal grants and contracts	3,353,383	2,938,263
State grants and contracts	709,026	1,056,158
Local grants and contracts	215,421	288,573
Private gifts, grants and contracts	592,234	463,245
Sales and services	1,738,558	1,656,337
Miscellaneous	<u>357,222</u>	<u>454,089</u>
Total operating revenues	<u>27,397,149</u>	<u>25,599,113</u>
 EXPENSES		
Operating expenses		
Education and general		
Instruction and departmental research	21,029,373	19,813,592
Public service	3,456,141	3,568,800
Academic support	2,747,627	2,869,845
Student services	3,805,205	3,822,169
Institutional support	8,066,606	8,101,718
Operation and maintenance of plant	4,848,292	4,729,566
Scholarships and fellowships	6,730,334	6,472,193
Depreciation expense	2,603,891	2,472,708
Auxiliary enterprises	<u>5,444,932</u>	<u>4,907,936</u>
Total operating expenses	<u>58,732,401</u>	<u>56,758,527</u>
 Operating loss	<u>(31,335,252)</u>	<u>(31,159,414)</u>
 NON-OPERATING REVENUES (EXPENSES)		
State appropriations	15,172,781	17,448,098
State appropriations-State Fiscal Stabilization Funds	2,056,558	-
Federal, state and local grants and contracts	13,388,596	11,020,780
Private grants and contracts	903,405	915,521
Investment income	1,388,600	(1,536,654)
Loss on disposal of capital assets	(18,970)	(24,840)
Amortization of debt issuance cost	<u>(11,749)</u>	<u>(11,749)</u>
Net non-operating revenues	<u>32,879,221</u>	<u>27,811,156</u>
 Increase (decrease) in net assets before capital appropriations	1,543,969	(3,348,258)
 Capital appropriations	<u>630,153</u>	<u>2,521,820</u>
 INCREASE (DECREASE) IN NET ASSETS	2,174,122	(826,438)
 NET ASSETS		
Beginning of year	<u>86,369,167</u>	<u>87,195,605</u>
 End of year	<u>\$ 88,543,289</u>	<u>\$ 86,369,167</u>

See accompanying notes to financial statements.

SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION
 STATEMENTS OF ACTIVITIES
 Year ended June 30, 2010 with comparative 2009 totals

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2010</u>	<u>Total 2009</u>
Revenues, gains and other support					
Contributions	\$ 39,099	\$ 610,906	\$ 673,519	\$ 1,323,524	\$ 288,964
Investment income, net	809,314	280,237	-	1,089,551	(1,760,776)
Losses on uncollectable contributions	(488)	(105,307)	-	(105,795)	-
Net assets released from restrictions	<u>470,358</u>	<u>(470,358)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>1,318,283</u>	<u>315,478</u>	<u>673,519</u>	<u>2,307,280</u>	<u>(1,471,812)</u>
Expenses					
Scholarships and other student aid	173,866	-	-	173,866	251,466
Institutional support	551,682	-	-	551,682	797,453
Guest speakers and lecturers	12,476	-	-	12,476	15,551
Management and general expenses	<u>182,631</u>	<u>-</u>	<u>-</u>	<u>182,631</u>	<u>216,596</u>
Total expenses and losses	<u>920,655</u>	<u>-</u>	<u>-</u>	<u>920,655</u>	<u>1,281,066</u>
Change in net assets	397,628	315,478	673,519	1,386,625	(2,752,878)
Net assets at beginning of year	<u>(962,880)</u>	<u>6,874,459</u>	<u>6,809,144</u>	<u>12,720,723</u>	<u>15,473,601</u>
Net assets at end of year	<u>\$ (565,252)</u>	<u>\$ 7,189,937</u>	<u>\$ 7,482,663</u>	<u>\$ 14,107,348</u>	<u>\$ 12,720,723</u>

See accompanying notes to financial statements.

SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION
STATEMENT OF ACTIVITIES
Year ended June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains, and other support				
Contributions	\$ 8,258	\$ 198,144	\$ 82,562	\$ 288,964
Investment income, net	(1,240,738)	(520,038)	-	(1,760,776)
Net assets released from restrictions	<u>1,139,324</u>	<u>(1,064,324)</u>	<u>(75,000)</u>	<u>-</u>
Total revenues, gains, and other support	<u>(93,156)</u>	<u>(1,386,218)</u>	<u>7,562</u>	<u>(1,471,812)</u>
Expenses and losses				
Scholarships and other student aid	251,466	-	-	251,466
Institutional support	797,453	-	-	797,453
Guest speakers and lecturers	15,551	-	-	15,551
Management and general expenses	<u>216,596</u>	<u>-</u>	<u>-</u>	<u>216,596</u>
Total expenses and losses	<u>1,281,066</u>	<u>-</u>	<u>-</u>	<u>1,281,066</u>
Change in net assets	(1,374,222)	(1,386,218)	7,562	(2,752,878)
Net assets, beginning of year	<u>411,342</u>	<u>8,260,677</u>	<u>6,801,582</u>	<u>15,473,601</u>
Net assets, end of year	<u>\$ (962,880)</u>	<u>\$ 6,874,459</u>	<u>\$ 6,809,144</u>	<u>\$ 12,720,723</u>

See accompanying notes to financial statements.

SHAWNEE STATE UNIVERSITY
 STATEMENTS OF CASH FLOWS
 Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Cash received from tuition, fees, and other student charges	\$ 20,196,046	\$ 18,546,281
Cash received from gifts, grants and contracts	4,991,474	4,164,157
Cash received from sales and services	1,845,190	1,560,397
Cash received from miscellaneous services	357,222	454,089
Cash payments to suppliers for goods and services	(15,010,325)	(10,948,337)
Cash payments to employees for services	(24,863,893)	(24,180,826)
Cash payments for employee benefits	(11,382,565)	(10,435,556)
Cash payments for scholarships and fellowships	<u>(6,730,334)</u>	<u>(6,472,193)</u>
Net cash from operating activities	(30,597,185)	(27,311,988)
Cash flows from non-capital financing activities		
State appropriations	17,229,339	17,448,098
Non-exchange Gifts, Grants and Contracts	14,292,001	11,936,301
Net cash from agency transactions	<u>16,413</u>	<u>(34,971)</u>
Net cash from non-capital financing activities	31,537,753	29,349,428
Cash flows from capital and related financing activities		
Capital appropriations	513,163	2,662,922
Proceeds from contracts	-	1,850,000
Payments for capital acquisitions	(8,361,601)	(13,251,117)
Principal payments	(500,000)	(250,000)
Interest payments	<u>(823,600)</u>	<u>(833,600)</u>
Net cash from capital and related financing activities	(9,172,038)	(9,821,795)
Cash flows from investing activities		
Interest on investments	491,552	1,165,034
Proceeds for sales and maturities of investments	7,357,475	7,766,144
Purchase of securities	<u>(471,915)</u>	<u>(1,116,748)</u>
Net cash from investing activities	<u>7,377,112</u>	<u>7,814,430</u>
Net change in cash	(854,358)	30,075
Cash and cash equivalents, beginning of year	<u>4,384,943</u>	<u>4,354,868</u>
Cash and cash equivalents, end of year	<u>\$ 3,530,585</u>	<u>\$ 4,384,943</u>

(Continued)

SHAWNEE STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating loss	\$ (31,335,252)	\$ (31,159,414)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities		
Depreciation expense	2,603,891	2,472,708
Changes in assets and liabilities		
Accounts receivable	(32,948)	(798,015)
Notes receivable	(23,713)	1,577
Prepaid items	44,675	(79,713)
Inventory	(13,835)	14,084
Accounts payable	(2,027,811)	1,959,378
Accrued wages and benefits	98,668	278,767
Compensated absences payable	39,697	76,389
Deferred revenue	<u>49,443</u>	<u>(77,749)</u>
Net cash used by operating activities	<u>\$ (30,597,185)</u>	<u>\$ (27,311,988)</u>

See accompanying notes to financial statements.

NOTE 1 - REPORTING ENTITY

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the University have been prepared on the accrual basis and are in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. 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 University has elected not to apply FASB pronouncements issued after the applicable date. The significant Shawnee State University accounting policies are described below.

Basis of Presentation

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

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Basis of Accounting

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

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

Deferred Revenue

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

Income Taxes

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

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deposits and Investments

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

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

The University has invested funds in the State Treasury Asset Reserve of Ohio ("STAR Ohio"). STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price at which the investment could be sold on June 30, 2010.

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

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

Accounts Receivable

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

Capital Assets

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

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

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

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Shawnee State University's policy is to capitalize net interest on construction projects until completion of the project. The amount of the capitalized interest is the difference between the interest cost associated with the tax-exempt borrowing used to finance the project and the interest earned from temporary investments of the debt proceeds over the same period. Capitalized interest is amortized on a straight-line basis over the estimated useful life of the asset. Capitalized interest for fiscal year 2010 and 2009 was \$689,393 and \$224,684, respectively.

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employee's right to receive compensation is attributable to service already rendered and it is probable that the employer will compensate the employee for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability will include employees currently eligible to receive termination benefits and those Shawnee State University had identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and the employee's wage rate at year end, taking into consideration any limits specified in Shawnee State University's termination policy.

Operating Revenues and Expenses

The University's policy for defining operation activities as reported on the statement of revenues, expenses, and changes in net assets is to report those activities that generally result from exchange transactions, such as payments received for providing services or payments made for services or goods received. Nearly all of the College's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues as defined by GASB Statements No. 34 and 35, including state appropriations and investment income. In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, and recent updates in *GASB's Implementation Guide*, Pell grants are considered non-exchange transactions and are recorded as non-operating revenues in the accompanying financial statements.

Discounts and Allowances

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

Prepaid Items

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

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Charges

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

Budgetary Process

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

Estimates

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

Adoption of New Accounting Pronouncements

In fiscal year 2010, the provisions of GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, GASB issued Statement No.53, *Accounting and Financial Reporting for Derivative Instruments*, and GASB issued Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies* became effective.

Statement No. 51 establishes accounting and financial reporting requirements for intangible assets including easements, water rights, timber rights, patents, trademarks, and computer software to reduce inconsistencies. Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local Governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. By entering into these arrangements, governments receive and make payments based on market prices without actually entering into the related financial or commodity transactions. Derivative instruments associated with changing financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investments tools. Derivative instruments, however, also can expose governments to significant risks and liabilities. Common types of derivative instruments used by governments include interest rate and commodity swaps, interest rate locks, options, forward contracts, and futures contracts. The objective of Statement No. 58 is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to re-measure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms (that is, approves) a new payment plan. Adopting these statements had no effect on the University's financial statements.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OBEB) plans (that is, agent employers). The University will be required to implement this statement in fiscal year 2012.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The University will be required to implement this statement in fiscal year 2011.

Management has not yet determined the impact GASB Statements 57 and 59 will have on the University's financial statements and disclosures.

Reclassifications

Certain 2009 items have been reclassified to conform to the 2010 presentation. Reclassifications had no impact on the change in net assets or total net assets.

NOTE 3 - DEPOSITS AND INVESTMENTS

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

Deposits

Custodial credit risk: At June 30, 2010, the carrying amount of the University's deposits, (which consist of cash, excluding cash on hand of \$3,937, deposits held by trustee, and investments) was \$3,526,648 and the bank balance was \$4,522,000. The difference in the carrying amount and bank balance results from outstanding checks and deposits in transit. Of the bank balance, \$250,000 is covered by federal deposit insurance. The remaining balance at June 30, 2010 of \$4,272,000 is uninsured but collateralized by U.S. Treasuries held by the Federal Reserve Bank in "book entry" form in the name of the respective bank, but who also internally designate the securities as assigned to the University.

Investments

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

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

(Continued)

SHAWNEE STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

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

As of June 30, 2009, the University had the following investments and maturities using the segmented time distribution method:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>		
		<u><1</u>	<u>1-5</u>	<u>6-10</u>
U.S. Treasury	\$ 499,890	\$ 499,890	\$ -	\$ -
Bond Mutual Funds	5,044,408	-	2,388,971	2,655,437
Money Market Funds	5,196,974	5,196,974	-	-
STAR Ohio Funds	4,426,033	4,426,033	-	-
Repurchase Agreement	<u>4,680,600</u>	<u>4,680,600</u>	-	-
	19,847,905	\$ <u>14,803,497</u>	\$ <u>2,388,971</u>	\$ <u>2,655,437</u>
Equities and Equity Funds	<u>4,763,552</u>			
	\$ <u>24,611,457</u>			

Investments at June 30, 2010 and 2009 are shown in the statement of net assets as current in the amount of \$2,479,165 and \$9,645,318, respectively, and as non-current in the amount of \$16,282,587 and \$14,966,139, respectively.

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

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

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

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

(Continued)

SHAWNEE STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

As of June 30, 2009 the University had the following investments and quality ratings:

<u>Investment Type</u>	<u>Fair Value</u>	<u>AAA</u>	<u>Quality Ratings</u>	
			<u>AA</u>	<u>BBB</u>
U.S. Treasury Bill	\$ 499,890	\$ 499,890	\$ -	\$ -
Bond Funds	5,044,408	2,388,971	2,655,437	-
Money Market Funds	5,196,974	5,196,974	-	-
STAR Ohio Funds	4,426,033	4,426,033	-	-
Repurchase Agreement	4,680,600	4,680,600	-	-
	<u>\$ 19,847,905</u>	<u>\$ 17,192,468</u>	<u>\$ 2,655,437</u>	<u>\$ -</u>

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

NOTE 4 - STATE SUPPORT

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

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

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

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

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

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

(Continued)

SHAWNEE STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

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 2010, the University maintained comprehensive insurance coverage with a private carrier for real property, building contents, and motor vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are 100% insured.

Coverage provided by this company is as follows:

Real and personal property (\$100,000 deductible)	\$ 174,728,161
Automobile liability (\$100,000 deductible)	1,000,000*
Uninsured motorists (\$100,000 deductible)	1,000,000*
Employee benefits liability (Aggregate)	1,000,000*
General liability per occurrence (\$100,000 deductible)	1,000,000*

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

The University has a fully insured health care plan. No significant change occurred in employee health care coverage in 2010 or 2009.

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

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

NOTE 6 - GRANTS AND CONTRACTS

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

NOTE 7 - RETIREMENT PLANS

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

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

(Continued)

SHAWNEE STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 7 - RETIREMENT PLANS (Continued)

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 10% and the employer contribution rate is 14%. The University's contributions to OPERS for the years ending June 30, 2010, 2009, and 2008 were \$1,429,771, \$1,368,544, and \$1,265,391, respectively, which are equal to the required contributions for each year.

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

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, 2010, 2009, and 2008 was \$1,599,343, \$1,533,788, and \$1,443,786, respectively. All required contributions have been made for the three fiscal years.

Alternative Retirement Plan (ARP): All newly hired full time administrative employees, classified support staff, and faculty are eligible to choose an Alternative Retirement Plan ("ARP") rather than the STRS Ohio or OPERS. Once an employee decides to enroll in an ARP or the state retirement plan, the decision is irrevocable during their employment with the University. 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 eleven companies approved to offer an ARP for the University employees are AIF VALIC, AIG SunAmerica Life Assurance Co., AXA Equitable Life Insurance Co., Great American Life Insurance Co., ING Life Insurance and Annuity Co., Lincoln National Life Insurance Co., Metropolitan Life Insurance Co., Nationwide Life Insurance Co., TIAA-CREFF, The Hartford, and The Travelers Companies, Inc. The obligation for the payment of benefits has been transferred from the University to the elected insurance company.

Effective July 1, 2004, an employee in a STRS Ohio eligible position contributes 10% of their earned income to their ARP account. The University contributes 14%. For the period July 1, 2009 through June 30, 2010, 10.5% of this amount was paid into the member's ARP account. The remaining 3.5% was paid to STRS Ohio, as required by state legislation, to cover un-funded liabilities. The employee receives no benefits from STRS Ohio for the 3.5% contributed by the employer.

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

(Continued)

SHAWNEE STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 7 - RETIREMENT PLANS (Continued)

As of June 30, 2010, there are approximately 54 active participants in an ARP. The University's contribution for employees enrolled in ARP accounts for fiscal year 2010, 2009, and 2008 was \$443,708, \$460,474, and \$400,236, respectively.

NOTE 8 - POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System (OPERS): OPERS provides access to post-retirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. Access to health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit ("OPEB") as described in GASB Statement No. 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. Effective July 1, 2008, the employer contribution rate for state employers was 14%. Of this contribution, 4.5% was the portion that was used to fund health care for the year ended June 30, 2010.

The University's fiscal year 2010, 2009, and 2008 employer contributions to OPERS totaled \$1,429,771, \$1,368,544, and \$1,265,391, respectively. Of these amounts, \$64,340, \$95,798, and \$82,250 were used to fund health care for the year for employees in fiscal years 2010, 2009, and 2008, respectively. This represents 4.5%, 7%, and 6.5% of employer contributions for fiscal years 2010, 2009, and 2008, respectively.

The following assumptions and calculations were based on the System's latest Actuarial Review performed as of December 31, 2008. 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 fair 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 2008 was 6.5%. 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 6.30%. Health care costs were assumed to increase between 4.5% and 8% from 2007 through 2014. Years 2015 and after are assumed to increase at the projected wage inflation rate.

OPEBs are advanced funded on an actuarially determined basis. The number of active contributing participants was 357,584, as of December 31, 2009. \$10.7 billion represents the actuarial value of the Retirement System's net assets available for OPEB at December 31, 2008. The actuarially accrued liability and unfunded actuarial accrued liability, based on the actuarial cost method used, was \$18.9 billion.

State Teachers Retirement System (STRS 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.

(Continued)

SHAWNEE STATE UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2010 and 2009

NOTE 8 - POSTEMPLOYMENT BENEFITS (Continued)

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year 2008 and after, the Board has allocated 1.0% of contributions toward health care. The balance in the Health Care Stabilization Fund was \$2.7 billion on June 30, 2009. For the University, this amount equaled \$114,239, \$109,556, and \$103,128 during fiscal years 2010, 2009, and 2008 respectively.

For the fiscal year ended June 30, 2009, net health care costs paid by STRS Ohio were \$298.1 million. There were 129,659 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. Vacation time may be accumulated up to a maximum of twice the employee's current accrual rate. Faculty does not earn vacation time.

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

NOTE 10 - LONG-TERM OBLIGATIONS

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

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

(Continued)

SHAWNEE STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 10 - LONG-TERM OBLIGATIONS (Continued)

The changes in the University's long-term obligations during fiscal year 2009 were as follows:

	Principal Outstanding <u>July 1, 2008</u>	<u>Additions</u>	<u>Deductions</u>	Principal Outstanding <u>June 30, 2009</u>	Amounts Due in One <u>Year</u>
2007 General Receipts Bonds, Series 2007	\$17,765,000	\$ -	\$ 250,000	\$ 17,515,000	\$ 500,000
Compensated Absences	<u>1,778,138</u>	<u>212,804</u>	<u>136,415</u>	<u>1,854,527</u>	<u>185,453</u>
Total Long-Term Liabilities	<u>\$19,543,138</u>	<u>\$ 212,804</u>	<u>\$ 386,415</u>	<u>\$ 19,369,527</u>	<u>\$ 685,453</u>

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

Interest expense of approximately \$689,000 and \$459,000 was capitalized during the construction periods in 2010 and 2009, respectively. There was no interest expense for fiscal year 2010 and 2009.

Principal and interest amounts due within each of the next five years and thereafter on the Series 2007 bond obligations outstanding at June 30, 2010 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 510,000	\$ 803,600	\$ 1,313,600
2012	535,000	783,200	1,318,200
2013	560,000	761,800	1,321,800
2014	575,000	739,400	1,314,400
2015	470,000	716,400	1,186,400
2016 – 2020	2,635,000	3,285,600	5,920,600
2021 – 2025	3,305,000	2,617,500	5,922,500
2026 – 2030	4,220,000	1,705,000	5,925,000
2031 – 2034	<u>4,205,000</u>	<u>538,500</u>	<u>4,743,500</u>
Total	<u>\$ 17,015,000</u>	<u>\$ 11,951,000</u>	<u>\$ 28,966,000</u>

NOTE 11 - LEASES

The University's operating leases consist of real property and movable equipment. Total expenditures during 2010 and 2009 under operating leases amounted to approximately \$4,500 in each year.

The operating leases expire in fiscal year 2013. Minimum lease payments are \$4,500 in fiscal year 2010 and \$3,500 in the fiscal years 2011, 2012 and 2013.

(Continued)

SHAWNEE STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 12 - CAPITAL ASSETS

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

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

(Continued)

SHAWNEE STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 12 - CAPITAL ASSETS (Continued)

Capital asset activity for the fiscal year ended June 30, 2009, was as follows:

	<u>Balance</u> <u>06/30/2008</u>	<u>Reclass</u> <u>and</u> <u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06/30/2009</u>
Capital assets, not being depreciated				
Land	\$ 7,597,752	\$ 170,829	\$	\$ 7,768,581
Land improvements	6,928,632			6,928,632
Library books	4,475,673	68,060	(5,122)	4,538,611
Construction in progress	<u>1,858,966</u>	<u>12,264,348</u>	<u>(340,050)</u>	<u>13,783,264</u>
Total capital assets, not being depreciated	<u>20,861,023</u>	<u>12,503,237</u>	<u>(345,172)</u>	<u>33,019,088</u>
Capital assets being depreciated				
Buildings and improvements	70,786,386	959,215	-	71,745,601
Equipment	<u>8,969,317</u>	<u>1,152,049</u>	<u>(89,328)</u>	<u>10,032,038</u>
Total capital assets, being depreciated	<u>79,755,703</u>	<u>2,111,264</u>	<u>(89,328)</u>	<u>81,777,639</u>
Less accumulated depreciation				
Buildings and improvements	(24,511,622)	(1,592,107)	-	(26,103,729)
Equipment	<u>(6,238,213)</u>	<u>(880,601)</u>	<u>69,610</u>	<u>(7,049,204)</u>
Total accumulated depreciation	<u>(30,749,835)</u>	<u>(2,472,708)</u>	<u>69,610</u>	<u>(33,152,933)</u>
Total capital assets, being depreciated, net	<u>49,005,868</u>	<u>(361,444)</u>	<u>(19,718)</u>	<u>48,624,706</u>
Capital assets, net	<u>\$ 69,866,891</u>	<u>\$ 12,141,793</u>	<u>\$ (364,890)</u>	<u>\$ 81,643,794</u>

NOTE 13 - CONTINGENCIES

The University receives financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs, generally requires compliance with terms and conditions specified in the grant and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the unrestricted or restricted educational and general funds or other applicable funds. However, in the opinion of management, any such disallowed claims would not have a material adverse effect on the overall financial position of the University at June 30, 2010.

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

(Continued)

SHAWNEE STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 14 - COMPONENT UNIT DISCLOSURE

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

Temporarily restricted net assets represent funds, which are restricted for a specific purpose determined by the donor. Permanently restricted net assets represent contributions in which the donor has stipulated, as a condition of the gift, that the principal be maintained intact and only the earnings of the fund be expended as the donor has specified. Temporarily and permanently restricted net assets at June 30, 2010 and 2009 are restricted primarily for scholarships, University programs, and capital improvements.

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

Foundation investments are stated at 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, 2010 and 2009, by classification is as follows:

	<u>2010</u>	<u>2009</u>
U.S. Treasury & Agency Obligations	\$ 1,243,499	\$ 1,351,394
Bond Mutual Funds	1,202,227	611,707
Stock Mutual Funds	2,150,658	1,703,075
Common Stocks	5,261,522	4,814,358
Corporate Bond Issues	<u>765,559</u>	<u>489,650</u>
	<u>\$ 10,623,465</u>	<u>\$ 8,970,184</u>

During the year ended June 30, 2010 and 2009 the Foundation made distributions of \$738,024 and \$2,914,470 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, 2010

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		\$ 158,536
Federal Work-Study Program	84.033		189,294
ARRA – Federal Work-Study Program	84.033		39,418
Academic Competitiveness Grants	84.375		276,840
SMART Grants	84.376		135,582
Federal Pell Grant Program	84.063		10,118,857
Federal Direct Loan Program	84.268		23,785,162
Teacher Education Assistance for College & Higher Education Grants (TEACH)	84.379		301,343
Total Student Financial Aid Cluster			<u>35,005,032</u>
TRIO Cluster:			
Student Support Services	84.042		325,642
Talent Search	84.044		320,762
Upward Bound	84.047		271,953
Educational Opportunity Centers	84.066		394,026
Upward Bound Math Science	84.047		285,174
Total TRIO Cluster			<u>1,597,557</u>
<i>Passed through Ohio Department of Education</i>			
Adult Education: Basic Grants to States	84.002	AB-S1	103,908
Twenty-first Century – After School Malls	84.287		818,448
Tech Prep Education	84.243	3E-OO	121,319
Career and Technical Education – Basic Grants to States	84.048		2,500
Tech Prep College Alumni	84.243		<u>525</u>
Total Department of Education			<u>1,046,700</u>
<i>Passed through Ohio Board of Regents</i>			
ARRA - State Fiscal Stabilization Fund – Education State Grants, Recovery Act	84.394		<u>2,056,558</u>
Total U.S. Department of Education			39,705,847
<u>Research and Development</u>			
<u>U.S. Department of Labor</u>			
<i>Passed through Ohio Department of Education</i>			
WIA Pilots, Demonstrations and Research Projects	17.261		61,098
OVITA/WIRED	17.261		<u>423,977</u>
Total WIA, U.S. Department of Labor			485,075

See accompanying notes to the Schedule of Federal Awards.

SHAWNEE STATE UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 June 30, 2010

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass through Entity identifying Number</u>	<u>Expenditures</u>
<u>Small Business Administration</u> Immersive Technology	59.UNK		\$ <u>340,165</u>
Total Research and Development			<u>825,240</u>
<u>U.S. Department of Agriculture</u> <i>Passed through Ohio Department of Education</i> Child and Adult Care Food Program	10.551	16-CU, 21-CU, 21- FU	<u>7,462</u>
<u>National Endowment for the Humanities</u> Soul of a People	45.164B		2,478
VictorReader Library	45.310		<u>278</u>
Total National Endowment for the Humanities			<u>2,756</u>
<u>National Science Foundation</u> NOYCE Scholarship	47.049		<u>13,168</u>
<u>U.S Department of Veterans Affairs</u> Disabled Veterans Scholarship	64.UNK		106,688
Post-9/11 Veterans Educational Assistance	64.028		<u>133,114</u>
Total U.S. Department of Veterans Affairs			<u>239,802</u>
Total Federal Expenditures			<u>\$ 40,794,275</u>

See accompanying notes to the Schedule of Federal Awards.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

NOTE 2 - FEDERAL WORK-STUDY AND FEDERAL SEOG WAIVER

For fiscal year 2010, the University received a waiver from the Department of Education for the Institutional Share Requirement under the Federal Work-Study and Federal Supplemental Educational Opportunity Grant programs.

NOTE 3 - FEDERAL DIRECT LOAN PROGRAM

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



Crowe Horwath LLP
Independent Member Crowe Horwath International

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

Board of Trustees
Shawnee State University
Portsmouth, Ohio

We have audited the financial statements of the business-type activities and discretely presented component unit of Shawnee State University (the "University") as of and for the year ended June 30, 2010, which collectively comprise Shawnee State University's basic financial statements and have issued our report thereon dated the same date as this report. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Shawnee State University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain matters that we reported to management of Shawnee State University in a separate letter dated October 15, 2010.

This report is intended solely for the information and use of management, the Finance and Facilities Committee, the Ohio Auditor of State, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP

Crowe Horwath, LLP

Columbus, Ohio
October 15, 2010



Crowe Horwath LLP
Independent Member Crowe Horwath International

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

Board of Trustees
Shawnee State University
Portsmouth, Ohio

Compliance

We have audited the compliance of Shawnee State University with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. Shawnee State University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Shawnee State University's management. Our responsibility is to express an opinion on Shawnee State University's compliance based on our audit.

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

In our opinion, Shawnee State University complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of Shawnee State University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Shawnee State University's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance, 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 SHanee State University's internal control over compliance.

(Continued)

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 courses of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 2010-01. A significant deficiency in internal control over compliance is a deficiency, or 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.

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

We noted certain matters that we reported to management of Shawnee State University in a separate letter dated October 15, 2010.

This report is intended for the information of the Finance and Facilities Committee, management, the Ohio Auditor of State, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Horwath LLP

Crowe Horwath, LLP

Columbus, Ohio
October 15, 2010

SHAWNEE STATE UNIVERSITY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 June 30, 2010

PART I: SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?	Yes	<u> X </u>	No
-----------------------------------	-----	----------------------	----

Significant deficiencies identified not considered to be material weaknesses?	Yes	<u> X </u>	N/A
---	-----	----------------------	-----

Noncompliance material to financial statements noted?	Yes	<u> X </u>	No
---	-----	----------------------	----

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	Yes	<u> X </u>	No
-----------------------------------	-----	----------------------	----

Significant deficiencies identified not considered to be material weakness(es)?	<u> X </u>	Yes	N/A
---	----------------------	-----	-----

Type of auditors' report issued on compliance for major programs

Unqualified

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

(Continued)

SHAWNEE STATE UNIVERSITY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 June 30, 2010

<u>Name of Major Programs Identified</u>	<u>CFDA Number(s)</u>
Student Financial Aid Cluster:	
Federal Pell Grant Program	84.063
Federal Work-Study Program	84.033
Federal Supplemental Educational Opportunity Grant	84.007
Federal Direct Loan Program	84.268
Academic Competitiveness Grant	84.375
National Science and Mathematics Access Retain Talent Grant to Retain Talent Grant (SMART)	84.376
Teacher Education Assistance for College & Higher Education Grants (TEACH)	84.379
Twenty-first Century – After School Malls	84.287
Education State Grants Recovery Act	84.394
WIA Pilots, Demonstrations and Research Projects and OVITA/WIRED	17.261
Immersive Technology	59.UNK
Dollar threshold used to distinguish between Type A and Type B programs	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u> X </u> Yes <u> </u> No

PART II: FINANCIAL STATEMENT FINDINGS SECTION

There were no findings.

PART III: MAJOR FEDERAL AWARD AUDIT FINDINGS AND QUESTIONED COSTS SECTION

FINDING 10-01

Federal Program Information: Small Business Administration - Immersive Technology Grant, CFDA # 59.UNK

Criteria: 2 CFR 215.13: Debarment and suspension.

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

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

Context: One contract qualified under the above statute in the current fiscal year. This contract was awarded without checking the EPLS.

(Continued)

SHAWNEE STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2010

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

FINDING 10-01 (continued)

Questioned Costs: \$0

Recommendation: We recommend that the University review its current internal control procedures to ensure that the EPLS is checked online at EPLS.gov prior to awarding a contract where applicable.

Management's Response: Management concurs with this finding.

Corrective Action: This was Shawnee State University's first experience bidding a federally-funded project in excess of \$25,000. Having now been made aware of federal requirements related to "Debarment and Suspension", the University's Purchasing Department will add a column to all bid evaluation worksheets titled "EPLS.gov Review" and will check the Excluded Party Listing System prior to awarding applicable contracts. A subsequent search of EPLS.gov for the exception noted during the audit returned no applicable exclusions.

PART IV: SUMMARY OF PRIOR YEAR FINDINGS

There were no findings for the year ending June 30, 2009.



Mary Taylor, CPA
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 9, 2010**