

SHAWNEE STATE UNIVERSITY
Portsmouth, Ohio

FINANCIAL STATEMENTS
June 30, 2013 and 2012



Dave Yost • Auditor of State

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

We have reviewed the Independent Auditor's Report of the Shawnee State University, Scioto County, prepared by Crowe Horwath LLP, for the audit period July 1, 2012 through June 30, 2013. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

October 28, 2013

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SHAWNEE STATE UNIVERSITY
Portsmouth, Ohio

FINANCIAL STATEMENTS
June 30, 2013 and 2012

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Shawnee State University
Portsmouth, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Shawnee State University (the "University"), a component unit of the State of Ohio, and its discretely presented component unit (Shawnee State University Development Foundation) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 financial statements are free from material misstatement.

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

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

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the University and its discretely presented component unit, as of June 30, 2013 and 2012, and the changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the University adopted the provisions of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective June 30, 2012.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) on pages 4 to 11 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's financial statements. The accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and are not a required part of the financial statements.

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

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Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated the same date as this report 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.



Crowe Horwath LLP

Columbus, Ohio
October 15, 2013

SHAWNEE STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the fiscal years ended June 30, 2013 and 2012

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, 2013. 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 Position, Statement of Revenues, Expenses and Changes in Net Position, 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. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, and GASB 61, *The Financial Reporting Entity – Omnibus*, 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.

During fiscal year 2013, the University implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and certain other new GASB statements. Please see *Adoption of New Accounting Pronouncements* in Note 2 of the financial statements for further details.

Financial Highlights

Key financial highlights for 2013 are as follows:

- Total net position decreased \$1,048,965.
- Total assets increased \$1,492,322. Current assets decreased \$556,078 and non-current assets (excluding capital assets) increased \$1,385,156 primarily as the result of the reduction in cash balances and the increased value of investments respectively.
- The \$2,718,429 increase in total liabilities and \$1,992,244 in current liabilities are primarily due to a new capital lease to fund the University IT Infrastructure Upgrade project and additional benefit accruals due to the University's change to a self-funded health insurance program during the fiscal year.
- Total revenue increased \$1,191,233 from 2012 to 2013 compared with a decrease of \$2,698,436 from 2011 to 2012, due to an increase of \$1,214,150 in investment revenue.
- Total expenses increased \$1,344,194 from 2012 to 2013 as compared with an increase of \$1,254,638 from 2011 to 2012.
- Operating expenses increased \$1,400,426 primarily as a result of increased institutional support, instruction and research expenses.
- Operating revenue increased slightly by \$181,008.
- Non-operating revenue increased \$328,558 as a result of increased investment revenue. Non-operating expenses decreased \$56,232 primarily as a result of a reduced loss on disposal of capital assets.

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

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SHAWNEE STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the fiscal years ended June 30, 2013 and 2012

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

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position present information about the University and its activities in a way that helps answer the question, "How did Shawnee State University do financially during 2013?" The Statement of Net Position includes all short-term and long-term assets and liabilities, both financial and capital, and deferred inflows of resources. The accrual basis of accounting is used for the recording of revenue and expenses. This basis of accounting records revenue when earned and expenses when incurred, regardless of when the cash is actually received or paid.

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

STATEMENT OF NET POSITION

The Statement of Net Position, which reports all assets and liabilities of the University, reflects the financial position of the University at the end of the fiscal year. Total assets and deferred outflows minus total liabilities and deferred inflows equal net position. The University's assets, liabilities, deferred inflows and net position as of June 30, 2013, 2012, and 2011 are presented below:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Assets:			
Current assets	\$ 9,080,774	\$ 9,636,852	\$ 11,324,542
Capital assets, net	88,968,410	88,305,166	89,509,388
Other non-current assets	<u>18,903,209</u>	<u>17,518,053</u>	<u>16,884,797</u>
Total assets	<u>116,952,393</u>	<u>115,460,071</u>	<u>117,718,727</u>
Liabilities:			
Current liabilities	7,508,959	5,516,715	6,287,174
Non-current liabilities	<u>18,896,615</u>	<u>18,170,430</u>	<u>18,585,480</u>
Total liabilities	<u>26,405,574</u>	<u>23,687,145</u>	<u>24,872,654</u>
Deferred Inflows of Resources:	<u>891,429</u>	<u>1,068,571</u>	<u>1,245,714</u>
Net Position:			
Invested in capital assets	72,628,693	72,681,896	72,803,461
Restricted, expendable	298,522	349,699	379,909
Unrestricted	<u>16,728,232</u>	<u>17,672,760</u>	<u>18,416,989</u>
Total net position	<u>\$ 89,655,390</u>	<u>\$ 90,704,355</u>	<u>\$ 91,600,359</u>

Total assets of the University increased \$1,492,322 in 2013. Current assets decreased \$556,078 and non-current assets (excluding capital assets) increased \$1,385,156. The decrease in current assets in 2013 is predominantly attributable to a decrease in cash and cash equivalents related to reduced funding received from the federal government and State of Ohio during 2013. Net capital assets increased \$663,244 as a result of the \$3.6 million IT Infrastructure Upgrade capital project started in 2013. The \$2,718,429 increase in total liabilities (\$1,992,244 increase in current liabilities and a \$726,185 increase in non-current liabilities) are primarily due to a new capital lease to fund the University IT Infrastructure Upgrade project and additional benefit accruals due to the University's change to a self-funded health insurance program during the fiscal year.

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SHAWNEE STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the fiscal years ended June 30, 2013 and 2012

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The statement of revenues, expenses and changes in net position presents the results of operations for the University. The change in net position during the fiscal year is a measurement of the change in the overall financial condition of the University. The University's revenues, expenses, and changes in net position for fiscal years ended June 30, 2013, June 30, 2012, and June 30, 2011 are as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating revenues			
Tuition, fees, and other student charges	\$ 24,513,333	\$ 24,714,784	\$ 22,716,106
Grants and contracts	3,957,641	3,357,255	4,129,536
Sales and services	1,810,841	1,910,816	1,824,775
Miscellaneous income	357,897	475,849	481,630
Non-operating revenues			
Investment income	1,316,206	102,056	1,998,979
State appropriations	15,966,614	16,120,703	15,511,269
State appropriations – State Fiscal Stabilization Funds	-	-	2,158,210
Other grants	15,492,676	16,224,179	16,159,410
Capital appropriations	<u>1,277,613</u>	<u>595,946</u>	<u>1,220,109</u>
Total revenues	<u>64,692,821</u>	<u>63,501,588</u>	<u>66,200,024</u>
Operating expenses			
Instruction and research	21,750,948	21,129,397	21,266,619
Public service	2,321,027	2,154,204	2,874,777
Academic support	2,833,861	2,820,322	3,058,492
Student services	4,245,464	4,105,408	4,010,556
Institutional support	11,451,277	10,395,977	8,996,219
Operation and maintenance of plant	5,285,870	5,177,885	5,230,931
Scholarships and fellowships	7,038,480	7,870,245	7,779,164
Depreciation	3,538,363	3,561,196	3,098,850
Auxiliary enterprises	6,479,758	6,329,988	5,964,488
Non-operating expenses			
Interest on capital debt	770,656	765,334	788,791
Loss on disposal of capital assets	14,333	75,888	62,318
Amortization of debt issuance cost	<u>11,749</u>	<u>11,748</u>	<u>11,749</u>
Total expenses	<u>65,741,786</u>	<u>64,397,592</u>	<u>63,142,954</u>
Increase (decrease) in net position	<u>\$ (1,048,965)</u>	<u>\$ (896,004)</u>	<u>\$ 3,057,070</u>

(Continued)

SHAWNEE STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the fiscal years ended June 30, 2013 and 2012

Shawnee State University is dedicated to its mission of providing higher education that fosters competence in oral and written communication, scientific and quantitative reason, and critical analysis/logical thinking. To enrich the lives of the community, the University provides opportunities for continuing personal and professional development, intellectual discovery, and appreciation for the creative and performing arts. The University charges students tuition and fees in accordance with approved University policy, as constrained by State laws. Based on State regulations, rates charged for undergraduate in-state tuition and fees increased 3.5% effective Summer 2012 semester.

During 2013, the University's revenue from student tuition and fees decreased to \$24,513,333 from the \$24,714,784 in fees generated in 2012 due to a decrease in enrollment. Tuition and fees represent 37.9% of the University's total revenue in 2013, 38.9% in 2012 and 34.3% in 2011. The 17.8% increase in operating grants and contracts revenue from \$3,357,255 in 2012 to \$3,957,641 in 2013 is attributable to private gifts received to partially offset costs of the IT Infrastructure Upgrade project.

The 10.2% increase in institutional support expense from \$10,395,977 in 2012 to \$11,451,277 is primarily attributable to increased salary and benefit costs of new and existing positions, the bad debt expense required to increase the University's allowance for doubtful accounts and additional costs for projects to review/improve the University's services to students and employees in 2013. Scholarship and fellowship expenses decreased 10.6% from \$7,870,245 in 2012 to 7,038,480 in 2013 due to reduced aid received from the federal (mainly Pell awards) and state (mainly post-secondary aid) governments.

State appropriations represent 24.7% of the University's total revenue in 2013, 25.4% in 2012, and 26.7% in 2011. The University received no state fiscal stabilization funds in 2013 or 2012 after receiving \$2,158,210 in 2011. These percentages and amounts illustrate that tuition and fee revenue alone is not sufficient to cover relevant operational expenses. The University is dependent upon a predictable and relatively stable level of state appropriation funding.

During 2013, investment income amounted to \$1,316,206 as compared to \$102,056 during 2012 and \$1,998,979 during 2011. The increase in investment markets in general is mirrored in the University's increase in investment income. During 2013, the University retained the services of an investment consultant as well as new investment managers to improve the University's long term investment performance.

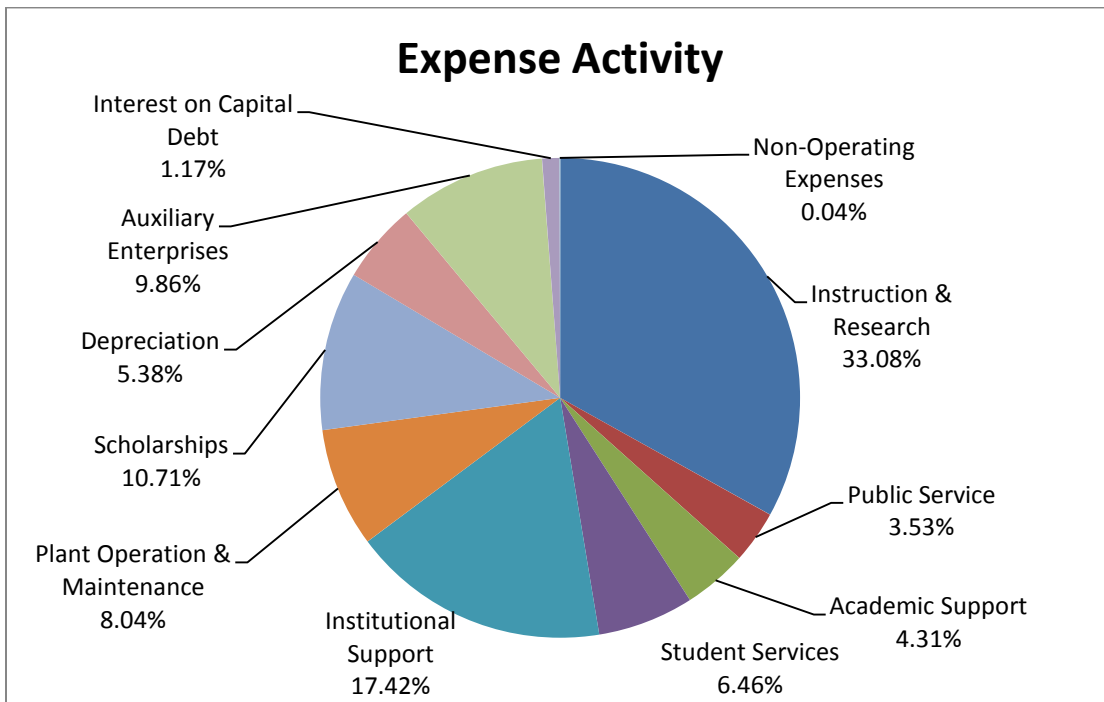
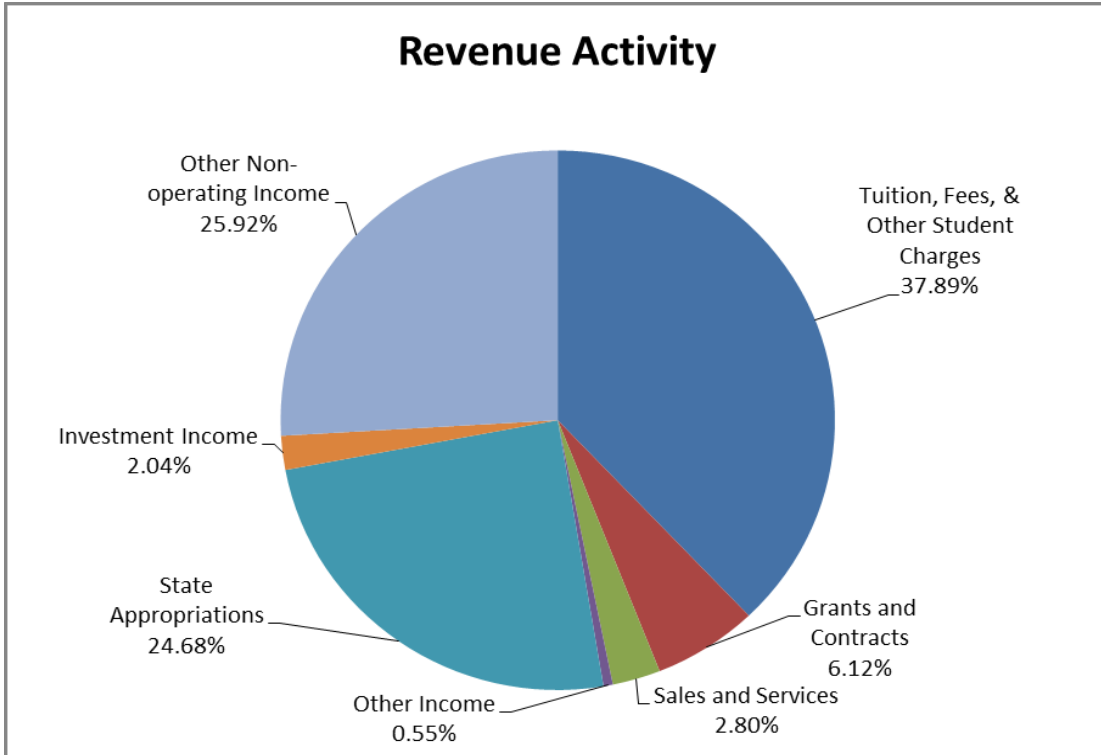
Pell Grants and certain other grants are considered non-exchange transactions and therefore are reflected as non-operating revenue. The Federal grants portion of Other Grants revenue experienced a 4.7% decrease. Income from federal aid programs such as Pell, SEOG and Veteran's Benefits amounted to \$11.7 million in 2013 as compared with \$12.5 million in 2012. Non-operating grants revenue represents 23.9% of the University's total revenue in 2013, 25.5% in 2012, and 24.4% in 2011.

Capital appropriations increased from \$595,946 in 2012 to \$1,277,613 in 2013 as a result of two new state funded construction projects. The classroom renovation portion of the IT Infrastructure Upgrade project and the Administrative Renovation project which were started in 2013 and are scheduled to be completed in 2014.

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SHAWNEE STATE UNIVERSITY
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the fiscal years ended June 30, 2013 and 2012

The following graphs summarize Shawnee State University's revenue and expense activity for the fiscal year ending June 30, 2013.



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SHAWNEE STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the fiscal years ended June 30, 2013 and 2012

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, 2013. A comparison of cash sources and uses during fiscal years 2013, 2012, and 2011 is presented below:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
<u>Cash provided (used) by:</u>			
Operating activities	\$ (30,636,074)	\$ (31,659,294)	\$ (31,322,044)
Non-capital financing activities	31,926,242	32,629,493	33,764,852
Capital and related financing activities	(2,019,860)	(2,981,313)	(4,514,718)
Investing activities	<u>(602,573)</u>	<u>(526,649)</u>	<u>3,869,061</u>
Net increase (decrease) in cash and cash equivalents	(1,332,265)	(2,537,763)	1,797,151
Cash and cash equivalents – Beginning of the year	<u>2,789,973</u>	<u>5,327,736</u>	<u>3,530,585</u>
End of the year	<u>\$ 1,457,708</u>	<u>\$ 2,789,973</u>	<u>\$ 5,327,736</u>

Cash and cash equivalents decreased by \$1,332,265 from 2012 to 2013, compared to a decrease of \$2,537,763 from 2011 to 2012 mainly due to a decrease in funding received from the federal government and State of Ohio during 2013.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2013, the University had \$88,968,410 in net capital assets. This reflects an overall increase of \$663,244 in net capital assets from 2012.

Capital assets, net of depreciation
at June 30,

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Land	\$ 8,003,370	\$ 8,003,370	\$ 7,934,297
Land Improvements	6,928,632	6,928,632	6,928,632
Buildings and Improvements	62,663,260	64,659,216	66,319,725
Equipment	3,058,064	3,656,072	3,674,693
Library books	4,652,734	4,607,964	4,596,607
Construction in progress	<u>3,662,350</u>	<u>449,912</u>	<u>55,434</u>
Totals	<u>\$ 88,968,410</u>	<u>\$ 88,305,166</u>	<u>\$ 89,509,388</u>

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SHAWNEE STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the fiscal years ended June 30, 2013 and 2012

Debt Administration

At June 30, 2013, the University had outstanding General Revenue Bonds Payable totaling \$15,410,000; \$575,000 of which is due within one year. This reflects an overall decrease of \$560,000 in the General Revenue Bonds Payable liability from 2012. 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.

During 2013, the University executed a new capital lease with Key Government Finance, Inc. The lease proceeds of \$2,820,339 are funding a portion of the University's IT Infrastructure Upgrade project. As of June 30, 2013, the remaining balance of the capital lease was \$2,247,225; \$962,155 of which is due within one year.

Outstanding debt at year end	<u>2013</u>	<u>2012</u>	<u>2011</u>
Capital Lease Payable – 2.49%	\$ 2,247,225	\$ -	\$ -
General Revenue Bonds Payable: 4.0% to 5.0% - Series 2007	<u>15,410,000</u>	<u>15,970,000</u>	<u>16,505,000</u>
Total Debt	<u>\$ 17,657,225</u>	<u>\$ 15,970,000</u>	<u>\$ 16,505,000</u>

Current Financial Issues and Concerns

Shawnee State University's Fiscal Year 2013 (FY13) financial performance was impacted by a 1.2% enrollment decline and the continuation of reductions in state appropriations, and federal, state and local grants. These reductions were moderated by the application of a 3.5% state allowable tuition rate increase and gains in the University's investment portfolio compared to FY12,

Increased FY13 operating expenditures were experienced in institutional support, student support, public support, and instruction. The FY13 general fund budget was built with the assumption that general fund reserves would be utilized. As a result of institution-wide spending-constraint strategies implemented in prior years and continued into FY13, the negative impact was mitigated. Further, in response to the decrease in the University's net position by \$1,048,965 (-1.2%) and anticipated future declines in revenue from multiple sources, the University strengthened its budget-reduction strategies with more austere measures beginning in FY14. These measures are incorporated into a multi-year plan that reduces recurring compensation costs, extends and expands non-compensation constraints, realigns non-core-mission operations for greater efficiencies, and preserves the University's general fund reserves. These actions are in addition to the President's prior-initiated academic and non-academic program reviews that are part of a long-term strategy intended to inform operational and academic program decisions.

The University's allocation of state funds referred to as "supplement" has historically been dependent upon the nuances of the state legislative biennial budgetary process. The FY13 supplement was just over \$2.3 million (about 15%) of the FY13 state appropriations of \$15,966,614. These funds are used for programs specifically targeted for the successful completion of academic degrees by a majority of SSU's student body. SSU continued through FY13 to work collaboratively with the Chancellor and his office to demonstrate the importance of offering programs dedicated to academic and student-life services. In FY12, the University initiated a plan to begin a graduated reduction and eventual elimination of the supplement over a 10-year period. This plan was deferred in part due to the negative impact of the state's funding formula changes upon open-access schools beginning in FY13. The volatility of institutional and students' and their parents' personal income is a theme that continues for Shawnee State and for many other higher education institutions in the nation.

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SHAWNEE STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the fiscal years ended June 30, 2013 and 2012

As with prior years, the FY13 reduction of federal and state grant dollars requires that the University examine the implications on the youth in our community to no longer have access to the positive and life-long experiences these programs provide. This trend of lessening financial support for community-based programs is expected to continue as more resources must be redirected to core-mission needs.

Ohio public universities' fiscal conditions are measured annually via financial viability ratios established by Senate Bill 6 ("SB 6"). This ratio is derived from a calculation that considers plant debt, operating expenses, total revenues, and changes to net position. The University continues to remain fiscally strong based upon this measure with its FY12 composite ratio of 3.4 (maximum is 5.0).

Shawnee State University supports statewide collaborative initiatives and participates fully in joint purchasing agreements that provide discount and rebate arrangements. Because of the spending constraints in FY13, the volume of purchasing was reduced by 8.4% from FY12. Conversely, because we were more strategic in our spending for large dollar items, the amount of rebate (monies remitted to the University by vendors when spending thresholds are met) increased by nearly 18%.

Measures taken in FY13 related to the University's auxiliary operations resulted in securing improved financial terms for the University's student housing management agreement beginning fall semester 2013. In addition, the bookstore contract was modified to enhance services and to offer lower-cost options for student textbooks with an improved contractual commission schedule. A comprehensive study of the University's auxiliary operations in FY14 will continue efforts toward assuring the efficient operation of these units.

Throughout FY13, the University has continued to modernize and upgrade its business, technology, and communications systems. An effort that began in FY13 and scheduled for completion in FY14 is the major undertaking to upgrade and increase capacity of SSU's internet infrastructure including enhancing wireless access and the implementation of VoIP technology. We are progressing with the long-term project to expand virtualization of computing systems. Additionally in FY14, measures designed to realize efficiencies for AP/Purchasing business services will be completed through new technology and reconfiguration of the allocated human resources.

Shawnee State University has demonstrated its ability to respond to external influences affecting institutional finances through teamwork and hard decisions. This approach has been crucial to effectively navigate the extended unstable economic climate within which we reside. Simultaneously, in recent years it was necessary to sustain the momentum required for a growing institution by reallocation of diminishing resources. With our first enrollment decline in a four-year period occurring in FY12, we maintain that we must continue to acknowledge and respond to the importance of providing resources for a myriad of priorities such as: enhancing student life and support services, adopting research-driven instructional delivery methods, providing high-quality scientific laboratories and state-of-the-art equipment that improve student outcomes, implementing operating procedures and key measures that ensure the safety and security of all campus populations, and meeting the ever-increasing commitments required by federal and state regulatory mandates.

As has been our management philosophy and practice, Shawnee State is responding with immediate and proactive actions that include the continued re-evaluation of institutional strategic plans, policies, and processes within the context of a changing higher education and uncertain economic environment. We have and will continue to modify and adjust where prudent and in a manner that strengthens the University's commitment to its stated mission.

SHAWNEE STATE UNIVERSITY
STATEMENTS OF NET POSITION
June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,457,708	\$ 2,789,973
Short-term investments	<u>779,539</u>	<u>247,538</u>
Total cash and short-term investments	2,237,247	3,037,511
Receivables		
Accounts (net of allowance for doubtful accounts of \$2,201,580 in 2013 and \$1,813,958 in 2012)	6,431,354	6,286,891
Notes	96,880	91,685
Amounts due from primary government	43,200	13,882
Interest receivable	-	10,126
Inventory	49,095	44,369
Unearned charges	11,749	11,749
Prepaid items	<u>211,249</u>	<u>140,639</u>
Total current assets	9,080,774	9,636,852
Non-current assets		
Investments	18,668,228	17,271,323
Unearned charges	234,981	246,730
Capital assets, net	<u>88,968,410</u>	<u>88,305,166</u>
Total non-current assets	<u>107,871,619</u>	<u>105,823,219</u>
Total assets	<u>\$ 116,952,393</u>	<u>\$ 115,460,071</u>

See accompanying notes to financial statements.

SHAWNEE STATE UNIVERSITY
STATEMENTS OF NET POSITION
June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 987,629	\$ 994,427
Accrued wages and benefits	3,326,604	2,129,853
Compensated absences payable	224,281	217,180
Capital lease payable	962,155	-
Bonds payable	575,000	560,000
Accrued interest payable	80,386	63,484
Unearned revenue	1,221,554	1,363,434
Deposits held by and due to others	<u>131,350</u>	<u>188,337</u>
Total current liabilities	<u>7,508,959</u>	<u>5,516,715</u>
Non-current liabilities		
Compensated absences payable	2,018,533	1,954,622
Unearned revenue	758,012	805,808
Capital lease payable	1,285,070	-
Bonds payable	<u>14,835,000</u>	<u>15,410,000</u>
Total non-current liabilities	<u>18,896,615</u>	<u>18,170,430</u>
Total liabilities	<u>26,405,574</u>	<u>23,687,145</u>
DEFERRED INFLOWS OF RESOURCES		
Service concession agreements	<u>891,429</u>	<u>1,068,571</u>
NET POSITION		
Invested in capital assets	72,628,636	72,681,896
Restricted		
Expendable		
Loans	112,916	112,916
Other	185,606	236,783
Unrestricted	<u>16,728,232</u>	<u>17,672,760</u>
Total net position	<u>89,655,390</u>	<u>90,704,355</u>
Total liabilities, deferred inflows and net position	<u>\$ 116,952,393</u>	<u>\$ 115,460,071</u>

See accompanying notes to financial statements.

SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION
 STATEMENTS OF FINANCIAL POSITION
 June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and cash equivalents	\$ 1,521,514	\$ 2,042,631
Investments	14,274,189	12,768,635
Contributions receivable, net	3,249,037	1,349,290
Beneficial interest in trusts held by others	1,225,717	1,144,954
Other assets	206,575	192,381
Property and equipment	<u>119,650</u>	<u>-</u>
Total assets	<u>\$ 20,596,682</u>	<u>\$ 17,497,891</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 3,654	\$ 26,121
Deposits held and due to others	171,648	111,778
Annuity payment liability	<u>297,927</u>	<u>324,109</u>
Total liabilities	<u>473,229</u>	<u>462,008</u>
Net assets		
Unrestricted	2,407,943	64,030
Temporarily restricted	8,029,210	9,213,579
Permanently restricted	<u>9,686,300</u>	<u>7,758,274</u>
Total net assets	<u>20,123,453</u>	<u>17,035,883</u>
Total liabilities and net assets	<u>\$ 20,596,682</u>	<u>\$ 17,497,891</u>

See accompanying notes to financial statements.

SHAWNEE STATE UNIVERSITY
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
REVENUES		
Operating revenues		
Student tuition and fees (net of scholarship allowances of \$12,480,451 in 2013 and 12,251,656 in 2012)	\$ 24,513,333	\$ 24,714,784
Federal grants and contracts	2,373,300	2,225,814
State grants and contracts	370,823	332,774
Local grants and contracts	262,926	287,523
Private gifts, grants and contracts	950,592	511,144
Sales and services	1,810,841	1,910,816
Miscellaneous	<u>357,897</u>	<u>475,849</u>
Total operating revenues	<u>30,639,712</u>	<u>30,458,704</u>
EXPENSES		
Operating expenses		
Education and general		
Instruction and departmental research	21,750,948	21,129,397
Public service	2,321,027	2,154,204
Academic support	2,833,861	2,820,322
Student services	4,245,464	4,105,408
Institutional support	11,451,277	10,395,977
Operation and maintenance of plant	5,285,870	5,177,885
Scholarships and fellowships	7,038,480	7,870,245
Depreciation expense	3,538,363	3,561,196
Auxiliary enterprises	<u>6,479,758</u>	<u>6,329,988</u>
Total operating expenses	<u>64,945,048</u>	<u>63,544,622</u>
Operating loss	<u>(34,305,336)</u>	<u>(33,085,918)</u>
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	15,966,614	16,120,703
Federal, state and local grants and contracts	14,692,279	15,410,720
Private grants and contracts	800,397	813,459
Investment income	1,316,206	102,056
Interest on capital asset related debt	(770,656)	(765,334)
Loss on disposal of capital assets	(14,333)	(75,888)
Amortization of debt issuance cost	<u>(11,749)</u>	<u>(11,748)</u>
Net non-operating revenues	<u>31,978,758</u>	<u>31,593,968</u>
Change in net position before capital appropriations	(2,326,578)	(1,491,950)
Capital appropriations	<u>1,277,613</u>	<u>595,946</u>
CHANGE IN NET POSITION	(1,048,965)	(896,004)
NET POSITION		
Beginning of year	<u>90,704,355</u>	<u>91,600,359</u>
End of year	<u>\$ 89,655,390</u>	<u>\$ 90,704,355</u>

See accompanying notes to financial statements.

SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION
 STATEMENTS OF ACTIVITIES
 Year ended June 30, 2013 with comparative 2012 totals

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2013</u>	<u>Total 2012</u>
Revenues, gains and other support					
Contributions	\$ 180,054	\$ 693,765	\$ 1,929,951	\$ 2,803,770	\$ 1,801,717
Investment income, net	161,811	1,643,534	-	1,805,345	55,383
Losses on uncollectable contributions	(883)	(1,841)	(1,925)	(4,649)	(11,601)
Other income	4,000	-	-	4,000	-
Net assets released from restrictions	<u>3,519,827</u>	<u>(3,519,827)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>3,864,809</u>	<u>(1,184,369)</u>	<u>1,928,026</u>	<u>4,608,466</u>	<u>1,845,499</u>
Expenses					
Scholarships and other student aid	188,153	-	-	188,153	197,370
Institutional support	1,078,311	-	-	1,078,311	796,216
Guest speakers and lecturers	10,751	-	-	10,751	8,355
Management and general expenses	<u>243,681</u>	<u>-</u>	<u>-</u>	<u>243,681</u>	<u>191,467</u>
Total expenses and losses	<u>1,520,896</u>	<u>-</u>	<u>-</u>	<u>1,520,896</u>	<u>1,193,408</u>
Change in net assets	2,343,913	(1,184,369)	1,928,026	3,087,570	652,091
Net assets at beginning of year	<u>64,030</u>	<u>9,213,579</u>	<u>7,758,274</u>	<u>17,035,883</u>	<u>16,383,792</u>
Net assets at end of year	<u>\$ 2,407,943</u>	<u>\$ 8,029,210</u>	<u>\$ 9,686,300</u>	<u>\$ 20,123,453</u>	<u>\$ 17,035,883</u>

See accompanying notes to financial statements.

SHAWNEE STATE UNIVERSITY DEVELOPMENT FOUNDATION
STATEMENT OF ACTIVITIES
Year ended June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2012</u>
Revenues, gains and other support				
Contributions	\$ 79,638	\$ 1,718,238	\$ 3,841	\$ 1,801,717
Investment income, net	(87,860)	143,243	-	55,383
Losses on uncollectable contributions	(100)	(11,446)	(55)	(11,601)
Net assets released from restrictions	<u>1,108,833</u>	<u>(1,108,833)</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>1,100,511</u>	<u>741,202</u>	<u>3,786</u>	<u>1,845,499</u>
Expenses				
Scholarships and other student aid	197,370	-	-	197,370
Institutional support	796,216	-	-	796,216
Guest speakers and lecturers	8,355	-	-	8,355
Management and general expenses	<u>191,467</u>	<u>-</u>	<u>-</u>	<u>191,467</u>
Total expenses and losses	<u>1,193,408</u>	<u>-</u>	<u>-</u>	<u>1,193,408</u>
Change in net assets	(92,897)	741,202	3,786	652,091
Net assets at beginning of year	<u>156,927</u>	<u>8,472,377</u>	<u>7,754,488</u>	<u>16,383,792</u>
Net assets at end of year	<u>\$ 64,030</u>	<u>\$ 9,213,579</u>	<u>\$ 7,758,274</u>	<u>\$ 17,035,883</u>

See accompanying notes to financial statements.

SHAWNEE STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Cash received from tuition, fees, and other student charges	\$ 23,730,995	\$ 23,764,007
Cash received from gifts, grants and contracts	3,618,834	2,869,993
Cash received from sales and services	1,880,347	1,860,456
Cash received from miscellaneous services	357,897	475,849
Cash payments to suppliers for goods and services	(15,274,349)	(13,760,716)
Cash payments to employees for services	(26,791,059)	(27,249,569)
Cash payments for employee benefits	(11,120,259)	(11,749,069)
Cash payments for scholarships and fellowships	<u>(7,038,480)</u>	<u>(7,870,245)</u>
Net cash from operating activities	(30,636,074)	(31,659,294)
Cash flows from non-capital financing activities		
State appropriations	15,966,614	16,120,703
Non-exchange gifts, grants and contracts	16,013,224	16,490,549
Net cash from agency transactions	<u>(53,596)</u>	<u>18,241</u>
Net cash from non-capital financing activities	31,926,242	32,629,493
Cash flows from capital and related financing activities		
Capital appropriations	1,236,199	606,535
Proceeds from capital debt	2,820,339	-
Payments for capital acquisitions	(4,170,223)	(2,269,648)
Principal payments	(1,133,113)	(535,000)
Interest payments	<u>(773,062)</u>	<u>(783,200)</u>
Net cash from capital and related financing activities	(2,019,860)	(2,981,313)
Cash flows from investing activities		
Interest on investments	357,055	339,317
Proceeds for sales and maturities of investments	14,650,304	62,190
Purchase of securities	<u>(15,609,932)</u>	<u>(928,156)</u>
Net cash from investing activities	<u>(602,573)</u>	<u>(526,649)</u>
Net change in cash and cash equivalents	(1,332,265)	(2,537,763)
Cash and cash equivalents, beginning of year	<u>2,789,973</u>	<u>5,327,736</u>
Cash and cash equivalents, end of year	<u>\$ 1,457,708</u>	<u>\$ 2,789,973</u>

(Continued)

SHAWNEE STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating loss	\$ (34,305,336)	\$ (33,085,918)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities		
Depreciation expense	3,538,363	3,561,196
Changes in assets and liabilities		
Accounts receivable	(793,400)	(1,237,496)
Notes receivable	(5,195)	(8,883)
Prepaid items	(74,735)	11,108
Inventory	(4,726)	(4,823)
Accounts payable	(6,798)	495,822
Accrued wages and benefits	1,197,485	(1,358,564)
Compensated absences payable	71,012	210,285
Unearned revenue	<u>(253,044)</u>	<u>(242,021)</u>
Net cash used by operating activities	<u>\$ (30,636,074)</u>	<u>\$ (31,659,294)</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.

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the University have been prepared on the accrual basis and are in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant Shawnee State University accounting policies are described below.

Basis of Presentation

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

 - Expendable*** – Resources 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. This category of net position principally represent amounts for specified capital construction projects.

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

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, deferred inflows of resources, net position, revenues, expenses, changes in net position 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.

Unearned Revenue

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

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 Agincourt Capital Management, Manning & Napier Advisors and TAMRO Capital Partners, 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, 2013.

For purposes of the statement of cash flows and presentation on the statement of net position 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 position. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. Shawnee State University maintains a capitalization threshold of 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.

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

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

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Shawnee State University's policy is to capitalize net interest on construction projects until completion of the project. The amount of the capitalized interest is the difference between the interest cost associated with the tax-exempt borrowing used to finance the project and the interest earned from temporary investments of the debt proceeds over the same period. Capitalized interest is amortized on a straight-line basis over the estimated useful life of the asset. No capitalized interest was recorded for fiscal years 2013 and 2012.

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.

Self-Insurance

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

Operating and Non-operating Revenues and Expenses

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

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 position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain federal, state, local and nongovernmental grants are recorded as either operating or 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)

Unearned Charges

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

Service Concession Arrangements

The University has an agreement with a food service provider which is a service concession arrangement. The University received funds toward dining hall renovations that are contingent upon the University utilizing the services of the food service provider over a ten year period. The amounts received are being amortized over the life of the contract arrangement. The unamortized amounts previously were reflected as unearned revenue. Under GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* which became effective in the year ended June 30, 2013, service concession arrangements are to be reported as deferred inflows or outflows. The University reclassified the amounts related to this service concession arrangement from unearned revenue to deferred inflows of resources at June 30, 2013 and 2012. The amounts totaled \$891,429 and \$1,068,571, respectively. This reclassification had no effect on the Statement of Revenues, Expenses and Changes in Net Position.

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 2013, the provisions of the following GASB Statements became effective:

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, issued November 2010. The provisions of this Statement are effective for periods beginning after December 15, 2011. This Statement addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership into which state and local governments are increasingly entering.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, issued November 2010. The provisions of this Statement are effective for periods beginning after June 15, 2012. This Statement is designed to improve financial reporting for government entities by amending the requirements of Statement No. 14, *The Financial Reporting Entity* and Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, to better meet user needs and to address reporting entity issues that have arisen since those Statements were issued in 1991 and 1999, respectively.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* issued December 2010. The provisions of this Statement are effective for periods beginning after December 15, 2011. This Statement is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board and American Institute of Certified Public Accountants pronouncements

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, issued June 2011. The provisions of this Statement are effective for periods beginning after December 15, 2011. This Statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statements in the future. In addition, the pronouncement does change the name of the Statement of Net Assets to the Statement of Net Position. A corresponding change has been made to the Statement of Revenues, Expenses and Changes in Net Position.

The adoption of these GASB statements had no significant impact on the University's financial condition or operating results. However, the University does have a service concession arrangement that under previous GASB guidance the University reflected as unearned revenue. Under GASB 63, service concession arrangements are deferred inflows and have been presented as such on the Statement of Net Position at June 30, 2013 and 2012.

Recent Accounting Pronouncements - As of June 30, 2013, the GASB has issued the following statements not yet implemented by the University.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, issued March 2012. The provisions of this Statement are effective for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, issued March 2012. The provisions of this Statement are effective for periods beginning after December 15, 2012. This Statement is intended to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, *Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions*, and *No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, issued June 2012. The provisions of this Statement are effective for periods beginning after June 15, 2014. This Statement is intended to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities.

(Continued)

SHAWNEE STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, issued January 2013. The provisions of this Statement are effective for periods beginning after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations include a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, issued April 2013. The provisions of this Statement are effective for periods beginning after June 15, 2013. This Statement specifies the information required to be disclosed by the governments that extend nonexchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive nonexchange financial guarantees.

The University's management has not yet determined the effect these statements will have on the University's financial statements.

Reclassifications

Certain 2012 items have been reclassified to conform to the 2013 presentation. Reclassifications had no impact on the change in net position or total net position.

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 Agincourt Capital Management, Manning & Napier Advisors, and TAMRO Capital Partners 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, 2013, the carrying amount of the University's deposits, (which consist of cash, excluding cash on hand of \$3,787, deposits held by trustee, and investments) was \$1,453,921 and the bank balance was \$1,854,618. The difference in the carrying amount and bank balance primarily results from outstanding checks. Of the bank balance, \$250,000 is covered by Federal Deposit Insurance. At June 30, 2012, the carrying amount of the University's deposits, (which consist of cash, excluding cash on hand of \$4,210, deposits held by trustee, and investments) was \$2,785,763 and the bank balance was \$3,365,881.

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.

(Continued)

SHAWNEE STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

As of June 30, 2013, 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>
US Govt. and agency bonds	\$ 1,552,759	\$ 312,946	\$ 493,890	\$ 745,923
Corporate bonds and notes	1,684,928	10,516	725,487	948,925
Fixed income mutual funds	3,194,304	-	377,945	2,816,359
Money market funds	977,710	445,709	532,001	-
STAR Ohio funds	<u>4,164,785</u>	<u>4,164,785</u>	<u>-</u>	<u>-</u>
	11,574,486	<u>\$ 4,933,956</u>	<u>\$ 2,129,323</u>	<u>\$ 4,511,207</u>
Equities and equity funds	<u>7,873,281</u>			
	<u>\$ 19,447,767</u>			

As of June 30, 2012, the University had the following investments and maturities using the segmented time distribution method:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>		
		<u><1</u>	<u>1-5</u>	<u>6-10</u>
Bond mutual funds	\$ 6,403,495	\$ -	\$ 1,284,794	\$ 5,118,701
Money market funds	348,967	287,331	61,636	-
STAR Ohio funds	<u>4,036,754</u>	<u>4,036,754</u>	<u>-</u>	<u>-</u>
	10,789,216	<u>\$ 4,324,085</u>	<u>\$ 1,346,430</u>	<u>\$ 5,118,701</u>
Equities and Equity Funds	<u>6,729,645</u>			
	<u>\$ 17,518,861</u>			

Investments at June 30, 2013 and 2012 are shown in the statement of net position as current in the amount of \$779,539 and \$247,538, respectively, and as non-current in the amount of \$18,668,228 and \$17,271,323, respectively.

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

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

(Continued)

SHAWNEE STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 3 - DEPOSITS AND INVESTMENTS (Continued)

As of June 30, 2013 and 2012 the University had the following investments and quality ratings:

<u>Investment Type</u>	<u>Rating</u>	<u>2013 Fair Value</u>	<u>2012 Fair Value</u>
US Govt. and agency bonds	AAA	\$ 1,552,759	\$ -
Corporate bonds and notes	AAA	30,377	-
	AA	122,311	4,993,657
	A	658,267	1,158,251
	BBB	859,353	61,646
	BB	14,620	63,398
	B	126,543	
Fixed income mutual funds	BBB	1,719,269	-
	B	1,475,035	-
Money market funds	AAA	445,709	287,331
	AA	532,001	-
	A	-	61,636
STAR Ohio funds	AAA	<u>4,164,785</u>	<u>4,036,754</u>
		<u>\$ 11,574,486</u>	<u>\$ 10,789,216</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 payment is received from 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.

(Continued)

SHAWNEE STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 4 - STATE SUPPORT (Continued)

The University facilities are not pledged as collateral for the revenue bonds. Instead, the bonds are supported by a pledge of monies in the Higher Education 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 position. In addition, appropriations by the General Assembly to the Ohio Board of Regents for payment of debt service charges are not reflected as appropriation revenue received by the University, and the related debt service payments are not recorded in the University's accounts.

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

NOTE 5 - RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2013, the University maintained comprehensive insurance coverage with a private carrier for real property, building contents, motor vehicles, and liability coverages. 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)	\$ 181,553,648
Automobile liability (\$100,000 deductible)	1,000,000*
Uninsured motorists (\$100,000 deductible)	1,000,000*
Employee benefits liability (\$100,000 deductible)	1,000,000*
General liability per occurrence (\$100,000 deductible)	1,000,000*

* \$9,000,000 excess over general liability, auto liability and employer's liability.

The University also has an International Travel comprehensive services assistance plan. The plan covers medical, security and traveler assistance.

The University is participating in a 3 year group pollution liability coverage plan, with a coverage limit of \$5m/\$10m, and a \$25,000 deductible.

The University had a fully insured health care plan in FY12 and transitioned to a self-insured plan beginning in FY13.

Workers' compensation benefits are provided through the State Bureau of Workers' Compensation. 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.

(Continued)

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 retirement plans administered by the Ohio Public Employees Retirement Systems ("OPERS") and the State Teachers Retirement System of Ohio ("STRS Ohio"). Employees may opt out of OPERS and STRS Ohio and participate in an Alternative Retirement Plan ("ARP").

OPERS and STRS Ohio each offer three separate retirement plans: a defined benefit plan, a defined contribution plan, and a combined plan. Authority to establish and amend benefits is provided by state statute per the Ohio Revised Code.

Defined Benefit Plans: The defined benefit plans of STRS Ohio and OPERS are cost-sharing multiple-employer public employee retirement plans that provide retirement, disability, postretirement healthcare, and survivor benefits for plan members.

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. STRS Ohio issues a stand-alone financial report. 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.

Under OPERS, the employee contribution rate is 10% for all employees with the exception of law enforcement whose rate is 12.6%. The employer contribution rate is 14% for all employees with the exception of law enforcement whose rate is 18.1%. The University's contributions to OPERS for the years ending June 30, 2013, 2012, and 2011 were \$1,542,319, \$1,517,417, and \$1,489,653, respectively, which are equal to the required contributions for each year.

Under STRS Ohio plan, the employee contribution rate is 10% and the employer contribution rate is 14%. The University's contributions for pension obligations to STRS Ohio for the fiscal years ending June 30, 2013, 2012, and 2011 were \$1,751,226, \$1,737,157, and \$1,712,283, respectively. All required contributions have been made for the three fiscal years.

Defined Contribution Plans: All newly hired full time administrative employees, classified support staff, and faculty are eligible to choose an Alternative Retirement Plan ("ARP") rather than the STRS Ohio or OPERS. Once an employee decides to enroll in an ARP or the state retirement plan, the decision is irrevocable during their employment with the University.

An employee in an OPERS eligible position contributes 10% of their earned income to their ARP account. Legislation mandates the employer must contribute an amount to the state retirement system to which the employee would otherwise have belonged. For the years ended June 30, 2013 and 2012, 13.23% was paid into the member's ARP account and the remaining .77% was paid to OPERS, as required by state legislation, to cover un-funded liabilities.

NOTE 7 - RETIREMENT PLANS (Continued)

An employee in a STRS Ohio eligible position contributes 10% of their earned income to their ARP account. Legislation mandates the employer must contribute an amount to the state retirement system to which the employee would otherwise have belonged. For the years ended June 30, 2013 and 2012, 10.5% was paid into the member's ARP account and the remaining 3.5% was paid to STRS Ohio, as required by state legislation, to cover un-funded liabilities.

As of June 30, 2013 and 2012, there are approximately 56 and 53 active participants, respectively, participating in an ARP. The University's contribution for employees enrolled in ARP accounts for fiscal year 2013, 2012, and 2011 was \$529,554, \$478,606, and \$444,341, respectively.

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

NOTE 8 - POSTEMPLOYMENT BENEFITS

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

Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0% during calendar years 2012 and 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar years 2012 and 2011. Effective January 1, 2013, the portion of employer contributions allocated to healthcare was lowered to 1 percent for both plans, as recommended by the OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree, or their surviving beneficiaries, to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

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

Under Ohio Law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of the covered payroll was allocated to post-employment health care for 2013, 2012, and 2011. The portion of the University's 2013, 2012, and 2011 contributions to STRS Ohio used to fund post-employment benefits was \$125,088, \$124,083, and \$122,305, respectively.

(Continued)

SHAWNEE STATE UNIVERSITY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2013 and 2012

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 2013 were as follows:

	<u>Principal Outstanding July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Principal Outstanding June 30, 2013</u>	<u>Amounts Due in One Year</u>
2007 General Receipts Bonds, Series 2007	\$ 15,970,000	\$ -	\$ 560,000	\$ 15,410,000	\$ 575,000
Capital Lease	-	2,820,339	573,114	2,247,225	962,155
Compensated Absenses	<u>2,171,802</u>	<u>309,295</u>	<u>238,283</u>	<u>2,242,814</u>	<u>224,281</u>
Total Long-Term Liabilities	<u>\$ 18,141,802</u>	<u>\$ 3,129,634</u>	<u>\$ 1,371,397</u>	<u>\$ 19,900,039</u>	<u>\$ 1,761,436</u>

The changes in the University's long-term obligations during fiscal year 2012 were as follows:

	<u>Principal Outstanding July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Principal Outstanding June 30, 2012</u>	<u>Amounts Due in One Year</u>
2007 General Receipts Bonds, Series 2007	\$ 16,505,000	\$ -	\$ 535,000	\$ 15,970,000	\$ 560,000
Compensated Absenses	<u>1,961,517</u>	<u>425,956</u>	<u>215,671</u>	<u>2,171,802</u>	<u>217,180</u>
Total Long-Term Liabilities	<u>\$ 18,466,517</u>	<u>\$ 425,956</u>	<u>\$ 750,671</u>	<u>\$ 18,141,802</u>	<u>\$ 777,180</u>

(Continued)

SHAWNEE STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 10 - LONG-TERM OBLIGATIONS (Continued)

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.

During fiscal year 2013, the University entered into a capital lease agreement to fund an IT Infrastructure upgrade project. The agreement totals \$2,820,339 with various payment dates through October 1, 2016. Assets purchased utilizing these funds are included within construction in progress at June 30, 2013.

The interest expense for fiscal years 2013 and 2012 was \$770,656 and \$765,334, respectively.

Principal and interest amounts due within each of the next five years and thereafter on the capital lease and Series 2007 bond obligations outstanding at June 30, 2013 are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,537,155	\$ 772,245	\$ 2,309,400
2015	887,747	748,766	1,636,513
2016	918,268	719,445	1,637,713
2017	939,055	689,058	1,628,113
2018	525,000	658,000	1,183,000
2019 – 2023	3,010,000	2,920,000	5,930,000
2024 – 2028	3,820,000	2,096,750	5,916,750
2029 – 2033	4,890,000	1,039,750	5,929,750
2034	<u>1,130,000</u>	<u>56,500</u>	<u>1,186,500</u>
Total	<u>\$ 17,657,225</u>	<u>\$ 9,700,514</u>	<u>\$ 27,357,739</u>

NOTE 11 - LEASES

The University's operating leases consist of real property and movable equipment that are set to expire on June 30, 2014. Total expenditures during 2013 and 2012 under operating leases amounted to approximately \$311,700 and \$309,200, respectively.

Minimum lease payments of \$264,823 will occur in fiscal year 2014.

(Continued)

SHAWNEE STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 12 - CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2013, was as follows:

	<u>Balance</u> <u>07/01/2012</u>	<u>Reclass</u> <u>and</u> <u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06/30/2013</u>
Capital assets, not being depreciated				
Land	\$ 8,003,370	\$ -	\$ -	\$ 8,003,370
Land improvements	6,928,632	-	-	6,928,632
Library books	4,607,964	50,602	(5,832)	4,652,734
Construction in progress	<u>449,912</u>	<u>3,610,283</u>	<u>(397,845)</u>	<u>3,662,350</u>
Total capital assets, not being depreciated	<u>19,989,878</u>	<u>3,660,885</u>	<u>(403,677)</u>	<u>23,247,086</u>
Capital assets being depreciated				
Buildings and improvements	97,170,292	639,069	-	97,809,361
Equipment	<u>13,221,410</u>	<u>313,831</u>	<u>(35,625)</u>	<u>13,499,616</u>
Total capital assets, being depreciated	<u>110,391,702</u>	<u>952,900</u>	<u>(35,625)</u>	<u>111,308,977</u>
Less accumulated depreciation				
Buildings and improvements	(32,511,076)	(2,635,025)	-	(35,146,101)
Equipment	<u>(9,565,338)</u>	<u>(903,338)</u>	<u>27,124</u>	<u>(10,441,552)</u>
Total accumulated depreciation	<u>(42,076,414)</u>	<u>(3,538,363)</u>	<u>27,124</u>	<u>(45,587,653)</u>
Total capital assets, being depreciated, net	<u>68,315,288</u>	<u>(2,585,463)</u>	<u>(8,501)</u>	<u>65,721,324</u>
Capital assets, net	<u>\$ 88,305,166</u>	<u>\$ 1,075,422</u>	<u>\$ (412,178)</u>	<u>\$ 88,968,410</u>

(Continued)

SHAWNEE STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 12 - CAPITAL ASSETS (Continued)

Capital assets activity for the fiscal year ended June 30, 2012, was as follows:

	<u>Balance</u> <u>07/01/2011</u>	<u>Reclass</u> <u>and</u> <u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06/30/2012</u>
Capital assets, not being depreciated				
Land	\$ 7,934,297	\$ 69,073	\$ -	\$ 8,003,370
Land improvements	6,928,632	-	-	6,928,632
Library books	4,596,607	50,871	(39,514)	4,607,964
Construction in progress	<u>55,434</u>	<u>405,859</u>	<u>(11,381)</u>	<u>449,912</u>
Total capital assets, not being depreciated	<u>19,514,970</u>	<u>525,803</u>	<u>(50,895)</u>	<u>19,989,878</u>
Capital assets being depreciated				
Buildings and improvements	96,227,416	942,876	-	97,170,292
Equipment	<u>12,426,643</u>	<u>975,564</u>	<u>(180,797)</u>	<u>13,221,410</u>
Total capital assets, being depreciated	<u>108,654,059</u>	<u>1,918,440</u>	<u>(180,797)</u>	<u>110,391,702</u>
Less accumulated depreciation				
Buildings and improvements	(29,907,691)	(2,603,385)	-	(32,511,076)
Equipment	<u>(8,751,950)</u>	<u>(957,811)</u>	<u>144,423</u>	<u>(9,565,338)</u>
Total accumulated depreciation	<u>(38,659,641)</u>	<u>(3,561,196)</u>	<u>144,423</u>	<u>(42,076,414)</u>
Total capital assets, being depreciated, net	<u>69,994,418</u>	<u>(1,642,756)</u>	<u>(36,374)</u>	<u>68,315,288</u>
Capital assets, net	<u>\$ 89,509,388</u>	<u>\$ (1,116,953)</u>	<u>\$ (87,269)</u>	<u>\$ 88,305,166</u>

NOTE 13 - CONTINGENCIES

The University receives financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs, generally requires compliance with terms and conditions specified in the grant and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the unrestricted or restricted educational and general funds or other applicable funds. However, in the opinion of management, any such disallowed claims would not have a material adverse effect on the overall financial statements of the University at June 30, 2013.

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

(Continued)

SHAWNEE STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 14 - COMPONENT UNIT DISCLOSURE

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

Temporarily restricted net assets represent funds, which are restricted for a specific purpose determined by the donor. Permanently restricted net assets represent contributions in which the donor has stipulated, as a condition of the gift, that the principal be maintained intact and only the earnings of the fund be expended as the donor has specified. Temporarily and permanently restricted net assets at June 30, 2013 and 2012 are restricted primarily for scholarships, University programs, and capital improvements.

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

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

The fair value of investments at June 30, 2013 and 2012, by classification is as follows:

	<u>2013</u>	<u>2012</u>
U.S. Treasury and agency obligations	\$ 1,825,471	\$ 1,159,563
Bond mutual funds	2,815,327	1,466,357
Stock mutual funds	1,263,298	2,646,241
Common stocks	7,770,396	6,727,429
Corporate bond issues	<u>599,697</u>	<u>769,045</u>
	<u>\$ 14,274,189</u>	<u>\$ 12,768,635</u>

During the year ended June 30, 2013 and 2012 the Foundation made distributions of \$1,277,215 and \$1,001,941 to or on behalf of the University for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Shawnee State University Development Foundation, Inc. at 940 Second Street, Portsmouth, Ohio, 45662.

SUPPLEMENTARY INFORMATION

SHAWNEE STATE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2013

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		\$ 129,675
Federal Work-Study Program	84.033		134,147
Federal Pell Grant Program	84.063		10,806,682
Federal Direct Loan Program	84.268		27,516,584
Teacher Education Assistance for College & Higher Education Grants (TEACH)	84.379		<u>155,925</u>
Total Student Financial Aid Cluster			<u>38,743,013</u>
TRIO Cluster:			
Student Support Services	84.042A		286,032
Upward Bound	84.047A		292,046
Educational Opportunity Centers	84.066A		359,847
Upward Bound Math Science	84.047M		<u>225,547</u>
Total TRIO Cluster			<u>1,163,472</u>
<i>Passed through Ohio Department of Education</i>			
Twenty-first Century – After School Malls	84.287	063321-T1S1	989,341
Secondary Career – Technical Alignment Initiative	84.048		14,177
Career and Technical Education, Basic Grants to States - We Are STEM	84.048	3L9G-PSL-WS-12-13	3,820
Dual Credentialing Math Grant	84.378A		<u>33,687</u>
Total Department of Education			<u>1,041,025</u>
<i>Passed through Ohio Board of Regents</i>			
ARRA - Race to the Top	84.395A	315 979	<u>18,452</u>
Total U.S. Department of Education			<u>40,965,962</u>
<u>Small Business Administration</u>			
Research and Development Immersive Technology	59.UNK		<u>41,707</u>

(Continued)

SHAWNEE STATE UNIVERSITY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year ended June 30, 2013

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass through Entity identifying Number</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture</u> <i>Passed through Ohio Department of Education</i> Child and Adult Care Food Program	10.558	16-CU, 21-CU, 21- FU	<u>9,005</u>
<u>National Endowment for the Humanities</u> Music Honors Academy	45.024		<u>6,154</u>
<u>Pass-through the US Department of Justice</u> Bulletproof Vest Partnership	16.607		<u>339</u>
<u>Pass-through the Appalachian Regional Commission</u> Appalachian Teaching Project	23.011	220011-18	<u>4,000</u>
<u>U.S Department of Veterans Affairs</u> Disabled Veterans Scholarship	64.UNK		<u>105,933</u>
Total Federal Expenditures			<u>\$ 41,133,100</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.

The University is the sub-recipient of federal funds which have been subject to testing and are reported as expenditures "passed through" from other entities on the Schedule.

NOTE 2 - FEDERAL WORK-STUDY AND FEDERAL SEOG WAIVER

For fiscal year 2013, 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.

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

Board of Trustees
Shawnee State University
Portsmouth, Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and discretely presented component unit of Shawnee State University as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Shawnee State University's basic financial statements, and have issued our report thereon dated the same day as this report.

Internal Control Over Financial Reporting

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

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

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

(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*.

Purpose of this Report

The purpose of this report is solely 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 effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Crowe Horwath LLP". The signature is written in a cursive, flowing style.

Crowe Horwath LLP

Columbus, Ohio
October 15, 2013

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Board of Trustees
Shawnee State University
Portsmouth, Ohio

Report on Compliance for Each Major Federal Program

We have audited Shawnee State University's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Shawnee State University's major federal programs for the year ended June 30, 2013. Shawnee State University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Shawnee State University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Shawnee State University's compliance.

Opinion on Each Major Federal Program

In our opinion, Shawnee State University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

(Continued)

Report on Internal Control Over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Crowe Horwath LLP

Columbus, Ohio
October 15, 2013

SHAWNEE STATE UNIVERSITY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 June 30, 2013

PART I: SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

	Yes	<u> X </u>	No
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Significant deficiencies identified not considered to be material weaknesses?

	Yes	<u> X </u>	None reported
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Noncompliance material to financial statements noted?

	Yes	<u> X </u>	No
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Federal Awards

Internal control over major programs:

Material weakness(es) identified?

	Yes	<u> X </u>	No
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Significant deficiencies identified not considered to be material weakness(es)?

	Yes	<u> X </u>	None reported
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Type of auditors' report issued on compliance for major programs

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (Section .510(a))?

	Yes	<u> X </u>	None reported
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(Continued)

SHAWNEE STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013

PART I: SUMMARY OF AUDITORS' RESULTS (Continued)

<u>Name of Major Programs Identified</u>	<u>CFDA Number(s)</u>	
Student Financial Aid Cluster:		
Federal Pell Grant Program	84.063	
Federal Work-Study Program	84.033	
Federal Supplemental Educational Opportunity Grant	84.007	
Federal Direct Loan Program	84.268	
Teacher Education Assistance for College & Higher Education Grants (TEACH)	84.379	
Twenty-first Century – After School Malls	84.287	
Dollar threshold used to distinguish between Type A and Type B programs	<u>\$ 300,000</u>	
Auditee qualified as low-risk auditee?	<u> X </u> Yes	<u> </u> No

PART II: FINANCIAL STATEMENT FINDINGS SECTION

There were no findings.

PART III: FEDERAL AWARD AUDIT FINDINGS AND QUESTIONED COSTS SECTION

There were no findings.

PART IV: SUMMARY OF PRIOR YEAR FINDINGS

There were no findings.



Dave Yost • Auditor of State

SHAWNEE STATE UNIVERSITY

SCIOTO COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 12, 2013**