

CENTRAL STATE UNIVERSITY
Wilberforce, Ohio

FINANCIAL STATEMENTS
June 30, 2017 and 2016



Dave Yost • Auditor of State

Board of Trustees
Central State University
1400 Brush Row Road
P. O. Box 1004
Wilberforce, Ohio 45384

We have reviewed the *Independent Auditor's Report* of the Central State University, Greene County, prepared by Crowe Horwath LLP, for the audit period July 1, 2016 through June 30, 2017. 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 Central 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

November 14, 2017

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CENTRAL STATE UNIVERSITY
Wilberforce, Ohio

FINANCIAL STATEMENTS
June 30, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

Management and Board of Trustees
Central State University
Wilberforce, Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Central State University (the "University"), a component unit of the State of Ohio, and its discretely presented component unit as of and for the years ended June 30, 2017 and 2016, 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Central State University and its discretely presented component unit as of June 30, 2017 and 2016, and the respective changes in its 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.

(Continued)

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 3 to 10, the Schedules of the University's Proportionate Share of the Net Pension Liability on pages 47 and 48, and the Schedules of the University's Contributions on pages 49 and 50, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements as a whole. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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 Central State 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 Central State University's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Columbus, Ohio
October 13, 2017

CENTRAL STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2017 and 2016

This section of Central State University's (the "University") annual financial report presents management's discussion and analysis of the financial performance of the University during the fiscal years ended June 30, 2017, 2016, and 2015. This discussion should be read in conjunction with the accompanying financial statements and notes. Management has prepared the financial statements and the related note disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with the University's administration.

Using this Report

The University's annual report consists of a series of financial statements prepared in accordance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments*, Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities* as amended by Governmental Accounting Standards Board Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* and Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosure*

The financial statements prescribed by GASB Statement No. 35 (the statement of net position, statement of revenue, expenses, and changes in net position, and the statement of cash flows) are prepared under the accrual basis of accounting, whereby revenue and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged. The financial statements focus on the financial condition, the results of operations, and the impact on cash flows of the University as a whole.

One of the most important questions asked about the University's finances is whether the University as a whole is better off, or worse off, as a result of the current year's activities. The keys to understanding this question are the statement of net position, the statement of revenue, expenses, and changes in net position, and the statement of cash flows. These statements present financial information in a form similar to that used by corporations. The University's net position is one indicator of its financial health.

The statement of net position includes all assets, deferred outflows, liabilities and deferred inflows of the University. Changes in net position are an indicator of the improvement or erosion of the University's financial health when considered with nonfinancial facts, such as enrollment levels, changes in state funding and facility changes.

The statement of revenue, expenses, and changes in net position presents the revenue earned and the expenses incurred during the year. Activities are reported either as operating or nonoperating. The financial reporting model reflects treatment of state and local appropriations, as well as gifts, as nonoperating revenue. Since dependency on State of Ohio and certain federal grants is recognized as nonoperating under accounting principles generally accepted in the United States of America, a public university normally presents operating results as a deficit. The utilization of long-lived assets, primarily capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

Another important factor to consider when evaluating the University's financial viability is its ability to meet financial obligations as they mature. One measure of this factor is the University's working capital, or the relationship of its current assets less its current liabilities.

The statement of cash flows presents the information related to cash inflows and outflows. These cash inflows and outflows are summarized by operating, noncapital financing, capital and related financing, and related investing activities. This statement illustrates the University's sources and uses of cash and helps measure the ability to meet financial obligations as they mature.

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CENTRAL STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2017 and 2016

The University follows GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*. As such, Central State University Foundation's (the "Foundation") financial statements and notes have been discretely incorporated into the University's financial statements.

During fiscal year 2015, the University adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions. The provisions of this Statement were effective for periods ending June 30, 2015.

Analysis of Results of Operations

Total revenue for the years ended June 30, 2017 and 2016 was \$59.0 million and \$57.2 million, respectively, of which operating revenue totaled \$29.6 million and \$27.0 million, respectively. Operating revenue in fiscal year 2017 increased \$2.6 million, or 9.6 percent, when compared with fiscal year 2016.

Total revenue for the years ended June 30, 2016 and 2015 was \$57.2 million and \$69.3 million, respectively, of which operating revenue totaled \$27.0 million and \$25.2 million, respectively. Operating revenue in fiscal year 2016 increased \$1.8 million, or 7.2 percent, when compared with fiscal year 2015.

Total operating expenses for the years ended June 30, 2017 and 2016 were \$54.3 million and \$52.1 million, respectively. Operating expenses increased \$2.2 million, or 4.2 percent, when compared with fiscal year 2016.

Total operating expenses for the years ended June 30, 2016 and 2015 were \$52.1 million and \$50.7 million, respectively. Operating expenses increased \$1.4 million, or 2.7 percent, when compared with fiscal year 2015.

The University's operating loss totaled \$24.7 million during 2017 compared to \$25.1 million in 2016, which represented a favorable decrease in the operating loss of \$0.4 million, or 1.6 percent.

The University's operating loss totaled \$25.1 million during 2016 compared to \$25.5 million in 2015, which represented a favorable decrease in the operating loss of \$.4 million, or 1.6 percent.

The University's total net position increased \$4.0 million during 2017 compared to an increase of \$4.5 million during 2016, which represents a favorable improvement of \$0.3 million.

The University's total net position increased \$4.5 million during 2016 compared to a decrease of \$7.8 million during 2015, which represents a favorable improvement of \$12.3 million.

The \$2.6 million increase in operating revenue was related to increases of \$2.2 million in Federal grants and contracts, \$1million in State, local and private grants and contracts and \$1.6 million from other sources; This was offset by decreases in tuition and fees of \$1.7million and \$0.5 million in auxiliary revenue.

Student enrollment increased 5.9 percent in fall fiscal year 2017 compared to fall fiscal year 2016; tuition and fees did not increase due state tuition freeze and room and board also did not increase. The Out of State surcharge was reduced from \$3841 to \$925 for all incoming freshmen and transfer students and from \$3,841 to \$50 for all continuing students with effect from the Fall 2016 semester.

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CENTRAL STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2017 and 2016

Operating revenue increased by \$1.9 million in fiscal year 2016 compared to 2015. The increase was related to increases of \$0.3 million in tuition and fees due to the 3 percent increase in enrollment, Federal and State Land Grant revenue \$1.3 million; Auxiliary revenue \$0.8 million as a result of higher on-campus residency and 28.7% general fee increase from 2015. The general fee increase was due to the introduction of a University Center fee, removing the mandatory fee and redistributing it between other components of the general fee.

Student enrollment decreased 15.3 percent in fall fiscal year 2015 compared to fall fiscal year 2014; tuition and fees increased \$188 per annum (the state maximum), while room and board were increased 3 percent for 2015 when compared to 2014 amounts. The increase in fees did not offset the \$3.2 million decrease in operating revenue as a result of the enrollment drop. The decreases of \$1.1 million in tuition and fees and \$1.5 million in auxiliary income were directly related to this drop. The decreases in Federal and State Grants \$.7 million (Center for Excellence STEM Grants) and \$0.2 million in indirect cost recovery which is directly related to grant activity.

A breakdown and comparison of operating revenues are provided below:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating Revenue (in millions)			
Tuition and fees - Net	\$ 4.9	\$ 6.5	\$ 6.2
Federal grants and contracts	9.2	7.0	6.6
State, local, and private grants and contracts	2.3	1.2	0.7
Indirect cost recovery	0.3	0.4	0.3
Auxiliary activities - Net	9.1	9.7	8.9
Other sources	<u>3.8</u>	<u>2.2</u>	<u>2.5</u>
Total	<u>\$ 29.6</u>	<u>\$ 27.0</u>	<u>\$ 25.2</u>

A breakdown and comparison of non-operating revenue are as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Non-operating Revenue (Expenses) (in millions)			
Federal Pell grant appropriations	\$ 6.3	\$ 6.2	\$ 6.6
State appropriations	16.5	17.7	18.1
Interest expense	(0.7)	(0.6)	(0.4)
Gain on disposal of capital assets, net	<u>0.2</u>	<u>0.2</u>	<u>0.1</u>
Total	<u>\$ 22.3</u>	<u>\$ 23.5</u>	<u>\$ 24.4</u>

State appropriations include core funding sources composed of the State's Share of Instructional Support (SSIS) and the Central State University Supplement.

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CENTRAL STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2017 and 2016

A breakdown and comparison of state appropriation revenues are as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
State Appropriations (in millions)			
State Share of Instructional Support	\$ 5.5	\$ 6.6	\$ 7.0
Central State supplement	<u>11.0</u>	<u>11.1</u>	<u>11.1</u>
Total	<u>\$ 16.5</u>	<u>\$ 17.7</u>	<u>\$ 18.1</u>

The decrease in State of Ohio funding from 2016 to 2017 was primarily due to Central State supplement decrease of \$1.1 million, or 16.7 percent.

The decrease in State of Ohio funding from 2015 to 2016 was primarily due to Central State supplement decrease of \$0.4 million, or 5.7 percent. This decrease is a result of the reduction in the Access Challenge and Plant Operation and Maintenance (POM) funding in the State Share of Instruction.

Operating expenses include educational and general, auxiliary enterprises, restricted funding from grants and contracts, and depreciation. A breakdown and comparison of these expenses are as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Expenses (in millions)			
Instruction	\$ 9.5	\$ 9.6	\$ 9.6
Research	1.6	1.1	0.8
Student services	3.8	3.1	2.7
Academic support	5.7	5.4	6.0
Public services	3.3	2.3	2.1
Institutional administration	4.4	5.7	5.9
Operation and maintenance of plant	5.5	4.7	4.3
Auxiliary enterprises	11.6	12.3	11.2
Student aid	3.1	2.7	2.9
Depreciation	<u>5.8</u>	<u>5.2</u>	<u>5.2</u>
Total	<u>\$ 54.3</u>	<u>\$ 52.1</u>	<u>\$ 50.7</u>

Central State University's operating expenses during 2017 reflected a \$2.1 million increase in operating expenses, totaling \$54.3 million in 2017 as compared to \$52.1 million in 2016. The increase in expenses was primarily related to an increase in research (\$0.5 million), student services (\$0.7m), academic support (\$0.3 million), public services (\$1.0 million), operation of plant (\$0.8 million), student services (\$0.4 million), depreciation (\$0.6 million) and offset by a decrease in instruction (\$0.1 million) institutional support (\$1.3 million) and auxiliary enterprises (\$0.7 million).

Central State University's operating expenses during 2016 reflected a \$1.4 million increase in operating expenses, totaling \$52.1 million in 2016 as compared to \$50.7 million in 2015. The increase in expenses was primarily related to an increase in auxiliary enterprises (\$1.1 million), public service (\$0.2 million), operation of plant (\$0.3 million), research (\$0.3 million), student services (\$0.4 million) and offset by a decrease in scholarships (\$0.2 million) institutional support (\$0.2 million) and academic support (\$0.6 million). The unfavorable increase in expenses from 2015 reflect the increases in grant activity (Land Grant), enrollment infrastructure investments (Royall & Co.) and auxiliary enterprises (housing and dining). The increased activity of the Land Grant program and the refinance of Wesley Village Residential Halls will drive more expense but the revenue and investment funding from these two activities are building capacity for the future and prepares the institution for continued growth and stability.

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CENTRAL STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2017 and 2016

Analysis of Overall Financial Position

At June 30, 2017, current assets totaled \$11.9 million, as compared to \$21.3 million at June 30, 2016, a decrease of \$9.2 million. The decrease in current assets was primarily attributable to a \$2.2 million decrease in cash and cash equivalents and a decrease in accounts receivable of \$7.6 million offset by a \$0.4 million increase in amounts due from CSU Foundation. The decrease in accounts receivable is due to timing differences in billing and a change in collection policies, together with a more aggressive approach to enforcing these policies. Current liabilities at June 30, 2017, as compared to June 30, 2016, totaled \$7.6 million and \$18.0 million, respectively, a decrease of \$10.4 million. The decrease in current liabilities was primarily attributable to a decrease of \$9.8 million in unearned student fee revenue, \$0.3 million in other unearned revenue, \$0.2 million in accrued salaries, wages and benefits, and \$0.1 million in accounts payable. The decrease in unearned student fee revenue is due to a change in timing of invoicing for fall tuition and fees. The University's working capital ratios at June 30, 2017 and 2016 were 1.59 and 1.18, respectively

At June 30, 2016, current assets totaled \$21.3 million, as compared to \$9.5 million at June 30, 2015, an increase of \$11.8 million. The increase in current assets was primarily attributable to a \$9.5 million increase in accounts receivable due to pre-billing student accounts for FY17 and a \$2.1 million increase in cash and cash equivalents. Current liabilities at June 30, 2016, as compared to June 30, 2015, totaled \$18.0 million and \$6.7 million, respectively, an increase of \$11.3 million. The increase in current liabilities was primarily attributable to an increase of \$10.5 million in unearned student fee revenue, \$1.8 million in other unearned revenue, offset by a decrease of \$0.9 million in accrued salaries, wages and benefits, and \$0.8 million in other liabilities. The University's working capital ratios at June 30, 2016 and June 30, 2015 were 1.18 and 1.41, respectively.

Noncurrent assets are comprised of capital assets and restricted cash and cash equivalents. The \$3.4 million increase in the University's noncurrent assets, which total \$125.4 million at June 30, 2017 and \$122 million at June 30, 2016, is associated with a \$3.4 million increase in buildings, equipment, and construction in progress

Noncurrent assets are comprised of capital assets and restricted cash and cash equivalents. The \$14.6 million increase in the University's noncurrent assets, which total \$122 million at June 30, 2016 and \$107.4 million at June 30, 2015, is associated with a \$14.1 million increase in buildings, equipment, and construction in progress and an increase of \$0.5 million of restricted cash used in the construction of the buildings.

The University's noncurrent liabilities at June 30, 2017 total \$59.1 million, as compared to \$54.0 million at June 30, 2016. The \$5.1 million increase is primarily attributed to an increase in the net pension liability of \$6.6 million, primarily due to assumption changes made by OPERS, offset by a decrease in long-term debt of \$1.5million.

The University's noncurrent liabilities at June 30, 2016 total \$54.0 million, as compared to \$40.4 million at June 30, 2015. The \$13.6 million increase is primarily attributed to an increase in long-term debt of \$11.1 and an increase in the net pension liability of \$2.5 million.

The University's net position was \$77 million at June 30, 2017 and \$72.8 million at June 30, 2016. The University's net position was \$72.8 million at June 30, 2016 and \$68.3 million at June 30, 2015.

Net Pension Liability

During fiscal year 2015, the University adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition of Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. These statements significantly revise accounting for pension costs and liabilities.

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CENTRAL STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2017 and 2016

Capital Assets and Long-term Debt Activity

The University utilizes state capital appropriations for capital asset expenditures. State capital appropriations are on a biennium basis, and individual institutions' capital funding allocations are based largely on enrollment as well as appropriations for new facilities. During 2017, the University utilized \$6.4 million in state capital appropriations. During 2016, the University utilized \$6.1 million in state capital appropriations.

The University's long-term debt is comprised of notes payable to the Department of Education, bonds issued during 2013 under the State of Ohio Air Quality Development Authority Tax Exempt Revenue Bond program for \$16.6 million and a loan payable obtained during fiscal year 2016 from The Bank of New York Mellon Trust of \$13.1 million. During 2017, this was transferred to Regions Bank. The University completed their capital lease obligations in fiscal year 2016. During 2016, the University paid \$1.6 million in connection with debt maturities. The University is in compliance with all of its contractual long-term debt requirements and covenants.

A breakdown and comparison of the University's balance sheet as of June 30, 2017, 2016, and 2015 are provided below:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Balance Sheet (in millions)			
Assets:			
Current assets	\$ 12.1	\$ 21.3	\$ 9.5
Noncurrent assets:			
Restricted cash and equivalents	2.1	2.0	1.5
Capital assets - Net	<u>123.3</u>	<u>120.0</u>	<u>105.9</u>
Total assets	<u>137.5</u>	<u>143.3</u>	<u>116.9</u>
Deferred outflows of resources	8.2	5.3	1.7
Liabilities:			
Current	7.6	18.0	6.7
Noncurrent	<u>59.1</u>	<u>54.0</u>	<u>40.4</u>
Total liabilities	<u>66.7</u>	<u>72.0</u>	<u>47.1</u>
Deferred Inflows of Resources – Pension costs	2.0	3.8	3.2
Net position:			
Invested in capital assets Net	97.2	92.0	89.5
Restricted - expendable	(0.8)	0.2	0.3
Unrestricted	<u>(19.4)</u>	<u>(19.4)</u>	<u>(21.5)</u>
Total net position	<u>\$ 77.0</u>	<u>\$ 72.8</u>	<u>\$ 68.3</u>

Statement of Cash Flows

Net cash used in operating activities was \$20.2 million, \$19.2 million, and \$23.9 million in 2017, 2016, and 2015, respectively. In 2017, cash flows from operating activities were primarily comprised of tuition and fees (\$5.5 million), grants and contracts (\$6.7 million), auxiliary enterprise charges (\$2.3 million) and other receipts of (\$3.8 million), which were offset by payments to suppliers and employees of \$38.5 million.

Cash flows from noncapital financing activities were \$23 million, \$24.1 million, and \$24.7 million in 2017, 2016, and 2015, respectively. In 2017, these were comprised of State of Ohio appropriations of \$16.5 million, Federal Pell Grants of \$6.3 million, and offsetting federal loan receipts and disbursements.

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CENTRAL STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2017 and 2016

Cash used in capital and related financing activities for 2017 as \$4.9 million, while net cash flow in 2016 and 2015 was \$2.3 million and \$4.1 million, respectively. In 2017, cash flows from capital grants and gifts was \$6.4 million. This was offset by purchase of capital assets and construction of \$9.2 million, principal payment on capital debt \$1.5 million, and interest on capital debt \$0.7 million. In 2016, these were comprised of State of Ohio appropriations of \$17.7 million, Federal Pell Grants of \$6.2 million, and offsetting federal loan receipts and disbursements. Cash used in capital and related financing activities for 2016 was \$2.3 million, while net cash flow in 2015 and 2014 was \$4.1 million and \$15.0 million, respectively. In 2016, cash flows from capital grants and gifts was \$6.1 million and cash flows from the principal on capital debt was \$13.2 million. This was offset by purchase of capital assets and construction of \$19.2 million, principal payment of capital lease of \$0.1 million, principal payment on capital debt \$1.6 million, and interest on capital debt and capital lease \$0.6 million.

The net change in cash and cash equivalents was an increase of \$2.2 million in 2017, an increase of \$2.6 million in 2016, and a decrease of \$3.2 million in 2015. Year-end cash and cash equivalents for 2017, 2016, and 2015 were \$6 million, \$8.1 million, and \$5.6 million, respectively.

A breakdown and comparison of the University's statement of cash flows for the years ended 2017, 2016, and 2015 are provided below:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Cash Flows Activities (in millions)			
Cash flows from operating activities	\$ (20.2)	\$ (19.2)	\$ (23.9)
Cash flows from noncapital financing activities	23.0	24.1	24.7
Cash flows from capital and related financing activities	<u>(4.9)</u>	<u>(2.3)</u>	<u>(4.1)</u>
Net increase (decrease) in cash and cash equivalents	(2.1)	2.6	(3.3)
Cash and cash equivalents - Beginning of year	<u>8.1</u>	<u>5.5</u>	<u>8.8</u>
Cash and cash equivalents - End of year	<u>\$ 6.0</u>	<u>\$ 8.1</u>	<u>\$ 5.5</u>

Factors Impacting Future Periods

Central State University aspires to be a premier institution of excellence in teaching and learning that embraces diversity and produces graduates with knowledge, skills, and dispositions to make valuable contributions in a global society. The designation of an 1890 Land Grant Institution is now firmly integrated into our mission and our long term plans. The University's future includes growth in undergraduate research opportunities; new undergraduate and graduate degree programs in STEM-Ag; global exchange opportunities for students and faculty with international partner institutions; an expanding footprint both physically and online; extension services and training to local farmers; and working with local business communities to offer professional development services to meet needs of an ever-changing workforce. These opportunities open the door to new collaborations with Ohio's agricultural industries and new enrollment opportunities we haven't had previously.

The University's strategic plan is our guide for the future. This plan thoroughly founded in our three tenets; *service, protocol, and civility form our roadmap to the future*. The three tenets, along with the University continues to implement the plan issued in accordance with HB 153, to reach an enrollment attainment of 2,500 students over the next few years as the University continues to focus on course completion, retention and graduation. This refocused strategy is strongly supported by the leadership's compelling priorities of (1) quality academic experience, (2) targeted student enrollment, (3) reduced time to degree, (4) improved retention rates, (5) development of graduates with knowledge, skills, and disposition for professional placement in schools and professional careers, and (6) efficient and effective operations. These priorities align directly with the governor's goals for higher education as well as the 2012 Chancellor's Plan for Advancing Progress at Central State.

(Continued)

CENTRAL STATE UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
June 30, 2017 and 2016

The University ended FY2016 continuing its improvement in fiscal health. Cash balances and monthly expenses were controllable and predictable and matched with our revenues. New revenue sources and state capital investment have bolstered our capacity and our ability to increase our operating efficiency. As a result, Central State University SB-6 composite score, excluding GASB 68, was 2.8. This improvement in the ratio led to our removal from Fiscal Watch and recognition from the Ohio State Auditor and Chancellor that the University had removed or significantly addressed the issues that led to our financial challenges. This significant improvement in the University's fiscal health documented our commitment to sustainability and that our plans for the future were on track and ready to implement.

The University is continuing its focus on increasing its capacity through enrollment growth and capital investment. The Fall 17 class was the largest freshman class in the last five years. This class of over 800 new first time students led to an overall increase in enrollment of 3% and 15% in our on-campus residency. This expected growth in enrollment and on-campus residency generates additional revenue and additional financial benefits for the University. In addition, the University has over \$20 million in small and large capital projects ongoing. Projects such as, \$4.5 million in Library renovations, \$3.5 million in Information Technology upgrades, \$3.8 million in road and sidewalk repairs, \$1.9 million in campus security, \$1.5 million in HVAC updates and \$2.1 million in Land Grant renovations to Emery Hall. We are also in negotiations with a developer on a public private partnership for a 250 bed \$19 million dollar residential facility for next fall. These projects are all in support of our continued enrollment growth, capacity building and sustainability of the campus and our long-term plans.

The University is focused on securing its future. In support of this future the University has petitioned to be annexed by the city of Xenia. This action will provide the University with significant operational savings and increased capacity and support for the campus infrastructure. This partnership with Xenia positions Central State University as the largest employer in the city and establishes the University as a major player in the economic development of the region. The opportunity for growth and partnership with a municipality is key to our growth plans and our plans to be an economic engine in this area. This annexation was initiated by the University and approved by the University's Board of Trustees.

Fiscal Watch Removal

Central State University was placed on Fiscal Watch on April 21, 2015. The composite scores for the period July 1, 2013 to June 30, 2014 were (1.3 and 1.0, respectively) below 1.75 for two consecutive years. Pursuant to (Ohio Administrative Code Chapter 126:3-1) paragraph C, the Chancellor shall declare fiscal watch if any of the criteria set forth in paragraph B has been satisfied for reasons other than natural disaster. The University met and followed all the mandates of the Fiscal Watch statute and on April 5, 2017 the University, having achieved a SB-6 ratio above 2.4 and having fully remediated and in the process of remediating all issues that led to fiscal watch, was released from Fiscal Watch by the Chancellor, Ohio Department of Higher Education.

CENTRAL STATE UNIVERSITY
STATEMENTS OF NET POSITION
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Current assets		
Cash and cash equivalents	\$ 3,933,617	\$ 6,118,715
Accounts receivable - Net of allowance of approximately \$13.9 million at June 30, 2017 and \$15.5 million at June 30, 2016	6,335,570	13,897,312
Due from CSU Foundation	1,476,798	1,183,933
Inventory	-	500
Prepaid assets	<u>173,418</u>	<u>60,388</u>
Total current assets	11,919,403	21,260,848
Noncurrent assets		
Restricted cash and cash equivalents	2,065,770	2,043,283
Capital assets – net	<u>123,290,144</u>	<u>119,951,441</u>
Total noncurrent assets	<u>125,355,914</u>	<u>121,994,724</u>
 Total assets	 <u>\$ 137,275,317</u>	 <u>\$ 143,255,572</u>
Deferred outflows of resources		
Pension	\$ 8,271,220	\$ 5,278,338
Current liabilities		
Deposits	-	-
Accounts payable	368,445	424,880
Accrued salaries, wages, and benefits	2,906,561	3,084,464
Unearned student fee revenue	755,499	10,515,832
Current portion of long-term debt	1,528,041	1,495,604
Other liabilities	79,748	109,016
Other unearned revenue	<u>1,988,728</u>	<u>2,338,560</u>
Total current liabilities	7,627,022	17,968,356
Noncurrent liabilities		
Long-term debt	24,918,597	26,446,638
Long-term liabilities	729,343	682,868
Net pension liability	<u>33,447,272</u>	<u>26,832,141</u>
Total noncurrent liabilities	<u>59,095,212</u>	<u>53,961,647</u>
 Total liabilities	 <u>66,722,234</u>	 <u>71,930,003</u>
Deferred inflows of resources		
Pension	<u>2,005,534</u>	<u>3,802,949</u>
Net position		
Net investment in capital assets	97,173,639	92,013,683
Restricted expendable - grants	-	229,347
Unrestricted	<u>(20,354,870)</u>	<u>(19,442,072)</u>
 Total net position	 <u>\$ 76,818,769</u>	 <u>\$ 72,800,958</u>

See accompanying notes to financial statements.

CENTRAL STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenue		
Tuition and fees	\$ 8,333,744	\$ 10,129,444
Less grants and scholarships	<u>(3,471,603)</u>	<u>(3,596,913)</u>
Tuition and fees, net	4,862,141	6,532,531
Federal grants and contracts	9,204,736	7,013,307
State, local, and private grants and contracts	2,274,254	1,245,525
Indirect cost recovery	313,406	364,846
Auxiliary activities	14,812,291	14,470,329
Less grants and scholarships	<u>(5,669,283)</u>	<u>(4,815,151)</u>
Auxiliary activities, net	9,143,008	9,655,178
Other sources	<u>3,782,591</u>	<u>2,199,090</u>
Total operating revenue	29,580,136	27,010,477
Operating expenses		
Instruction	9,508,009	9,599,516
Research	1,640,999	1,096,344
Student services	3,783,794	3,154,893
Academic support	5,675,660	5,483,061
Public services	3,315,945	2,271,270
Institutional administration	4,446,386	5,663,610
Operation and maintenance of plant	5,460,856	4,677,848
Auxiliary enterprises	11,630,598	12,272,518
Student aid	3,059,102	2,725,397
Depreciation	<u>5,786,450</u>	<u>5,176,273</u>
Total operating expenses	<u>54,307,799</u>	<u>52,120,730</u>
Operating loss	(24,727,663)	(25,110,253)
Nonoperating revenue (expenses)		
Federal Pell Grant appropriations	6,306,314	6,175,484
State appropriations	16,531,849	17,734,188
Investment income	7,168	1,668
Interest expense	(717,249)	(599,120)
Other restricted nonoperating revenue	<u>192,512</u>	<u>192,719</u>
Net nonoperating revenue	<u>22,320,594</u>	<u>23,504,939</u>
Income - before other revenue	(2,407,069)	(1,605,314)
Other revenue - State capital appropriations	<u>6,424,880</u>	<u>6,132,182</u>
Increase (decrease) in net position	4,017,811	4,526,868
Net position - beginning of year	<u>72,800,958</u>	<u>68,274,090</u>
Net position - end of year	<u>\$ 76,818,769</u>	<u>\$ 72,800,958</u>

See accompanying notes to financial statements.

CENTRAL STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Tuition and fees	\$ 5,492,457	\$ 10,223,582
Grants and contracts	6,663,838	5,325,533
Payments to suppliers and employees	(38,520,774)	(39,146,010)
Auxiliary enterprise charges	2,327,561	2,197,811
Other	<u>3,996,567</u>	<u>2,199,091</u>
Net cash used in operating activities	<u>(20,254,327)</u>	<u>(19,199,993)</u>
Cash flows from noncapital financing activities		
Federal Pell grant	6,306,314	6,175,484
State appropriations	16,531,849	17,734,188
Other	192,512	192,719
Federal loan receipts	13,574,796	14,741,528
Federal loan disbursements	<u>(13,574,796)</u>	<u>(14,741,528)</u>
Net cash from noncapital financing activities	<u>23,030,675</u>	<u>24,102,391</u>
Cash flows from capital and related financing activities		
Capital grants and gifts received	6,424,880	6,132,182
Purchase of capital assets and construction in progress	(9,158,155)	(19,230,457)
Principal borrowing of capital debt	-	13,162,315
Principal paid on capital debt	(1,495,604)	(1,623,332)
Principal paid on capital lease	-	(120,817)
Interest paid on capital debt	<u>(717,249)</u>	<u>(599,120)</u>
Net cash from capital and related financing activities	<u>(4,946,128)</u>	<u>(2,279,230)</u>
Cash flows from investing activities - interest on investments	<u>7,168</u>	<u>1,670</u>
Net change in cash and cash equivalents	(2,162,612)	2,624,839
Cash and cash equivalents - beginning of year	<u>8,161,999</u>	<u>5,537,160</u>
Cash and cash equivalents - end of year	<u>\$ 5,999,387</u>	<u>\$ 8,161,999</u>
Reconciliation of net operating loss to net cash from operating activities		
Operating loss	\$ (24,727,663)	\$ (25,110,253)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation expense	5,786,450	5,176,273
Changes in operating assets and liabilities which (used) provided cash:		
Accounts receivable	7,268,878	(10,056,624)
Inventories, prepaids, and other assets	(112,530)	336,060
Accounts payable	(56,435)	(107,338)
Accrued salaries, wages, and benefits	(177,903)	(198,742)
Pension	1,824,646	(489,821)
Other liabilities	50,395	(782,163)
Unearned revenue and student deposits	<u>(10,110,165)</u>	<u>12,032,615</u>
Net cash used in operating activities	<u>\$ (20,254,327)</u>	<u>\$ (19,199,993)</u>

See accompanying notes to financial statements.

CENTRAL STATE UNIVERSITY FOUNDATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Cash and cash equivalents	\$ 3,193,968	\$ 1,698,257
Contributions receivable, net	5,008	3,705
Other receivables	1,708	1,797
Prepaid expenses	<u>6,233</u>	<u>6,233</u>
Total current assets	3,206,917	1,709,992
Investments	3,694,186	4,410,329
Restricted cash and cash equivalents	3,274,192	3,549,556
Capital assets, net	<u>11,146,630</u>	<u>11,570,744</u>
Total assets	<u>\$ 21,321,925</u>	<u>\$ 21,240,621</u>
Liabilities		
Accounts payable	\$ 25,323	\$ 29,153
Payable to Central State University	1,476,798	1,183,933
Accrued interest payable	380,138	393,144
Current portion of long-term debt	<u>595,000</u>	<u>570,000</u>
Total current liabilities	2,477,259	2,176,230
Long-term debt, net of unamortized financing costs of \$954,083 and \$1,045,457 for 2017 and 2016, respectively	<u>13,330,540</u>	<u>13,813,082</u>
Total liabilities	15,807,799	15,989,312
Net Assets		
Unrestricted	192,547	230,731
Temporarily restricted	2,724,730	2,447,213
Permanently restricted	<u>2,596,849</u>	<u>2,573,365</u>
Total net assets	<u>5,514,126</u>	<u>5,251,309</u>
Total liabilities and net assets	<u>\$ 21,321,925</u>	<u>\$ 21,240,621</u>

See accompanying notes to consolidated financial statements.

CENTRAL STATE UNIVERSITY FOUNDATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS (DEFICIT)
Year ended June 30, 2017 with comparative totals for 2016

	2017			2016	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Total</u>
Revenue					
Rental revenue	\$ 3,022,440	\$ -	\$ -	\$ 3,022,440	\$ 2,996,789
Contributions	337,477	160,845	23,484	521,806	600,364
Other	82,053	121,833	-	203,886	697,242
Investment income	34,859	412,560	-	447,419	75,188
Net assets released from restrictions	<u>417,721</u>	<u>(417,721)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue	3,894,550	277,517	23,484	4,195,551	4,369,583
Expenses					
Programs:					
Scholarship programs	186,603	-	-	186,603	266,490
Athletic programs	150,643	-	-	150,643	151,876
Academic programs	127,100	-	-	127,100	272,090
Institution programs	285,806	-	-	285,806	800,840
Student support programs	54,452	-	-	54,452	33,895
Housing programs	2,716,951	-	-	2,716,951	2,778,449
Operating expenses	402,345	-	-	402,345	89,154
Fundraising expenses	<u>8,834</u>	<u>-</u>	<u>-</u>	<u>8,834</u>	<u>103,129</u>
Total expenses	<u>3,932,734</u>	<u>-</u>	<u>-</u>	<u>3,932,734</u>	<u>4,495,923</u>
Increase in net assets	(38,184)	277,517	23,484	262,817	(126,340)
Net Assets - beginning of year	<u>230,731</u>	<u>2,447,213</u>	<u>2,573,365</u>	<u>5,251,309</u>	<u>5,377,649</u>
Net Assets - end of year	<u>\$ 192,547</u>	<u>\$ 2,724,730</u>	<u>\$ 2,596,849</u>	<u>\$ 5,514,126</u>	<u>\$ 5,251,309</u>

See accompanying notes to consolidated financial statements.

CENTRAL STATE UNIVERSITY FOUNDATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS (DEFICIT)
Year ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue				
Rental revenue	\$ 2,996,789	\$ -	\$ -	\$ 2,996,789
Contributions	181,095	397,743	21,526	600,364
Other	580,203	117,039	-	697,242
Investment income	34,930	40,258	-	75,188
Net assets released from restrictions	<u>508,165</u>	<u>(508,165)</u>	<u>-</u>	<u>-</u>
Total revenue	4,301,182	46,875	21,526	4,369,583
Expenses				
Programs:				
Scholarship programs	266,490	-	-	266,490
Athletic programs	151,876	-	-	151,876
Academic programs	272,090	-	-	272,090
Institution programs	800,840	-	-	800,840
Student support programs	33,895	-	-	33,895
Housing programs	2,778,449	-	-	2,778,449
Operating expenses	89,154	-	-	89,154
Fundraising expenses	<u>103,129</u>	<u>-</u>	<u>-</u>	<u>103,129</u>
Total expenses	<u>4,495,923</u>	<u>-</u>	<u>-</u>	<u>4,495,923</u>
Increase in net assets	(194,741)	46,875	21,526	(126,340)
Net Assets - beginning of year	<u>425,472</u>	<u>2,400,338</u>	<u>2,551,839</u>	<u>5,377,649</u>
Net Assets - end of year	<u>\$ 230,731</u>	<u>\$ 2,447,213</u>	<u>\$ 2,573,365</u>	<u>\$ 5,251,309</u>

See accompanying notes to consolidated financial statements.

CENTRAL STATE UNIVERSITY FOUNDATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Increase (Decrease) in net assets	\$ 262,817	\$ (126,340)
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:		
Depreciation	424,114	424,114
Amortization of issuance costs	91,374	93,297
Amortization of bond discount	19,000	20,462
Contributions restricted for long-term investment	(23,484)	(21,526)
Unrealized loss (gain) on investments	(300,733)	81,119
Changes in operating assets and liabilities:		
Contributions receivable	(1,214)	2,614
Accounts payable	270,935	254,480
Accrued interest payable	<u>(13,006)</u>	<u>(36,213)</u>
Net cash from operating activities	747,803	692,007
Cash flows from investing activities		
Purchases of investments	(3,927,404)	(1,344,161)
Sale of investments	<u>4,946,464</u>	<u>1,337,104</u>
Net cash from investing activities	1,019,060	(7,057)
Cash flows from financing activities		
Principal payment on bonds payable	(570,000)	(1,395,000)
Contributions restricted for long-term investment	<u>23,484</u>	<u>21,526</u>
Net cash from financing activities	<u>(546,516)</u>	<u>(1,373,474)</u>
Net change in cash and cash equivalents	1,220,347	(688,524)
Cash and cash equivalents - beginning of year	<u>5,247,813</u>	<u>5,936,337</u>
Cash and cash equivalents - end of year	<u>\$ 6,468,160</u>	<u>\$ 5,247,813</u>
Supplemental Information		
Cash paid for interest	\$ 773,301	\$ 835,879

See accompanying notes to consolidated financial statements.

NOTE 1 - BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Central State University (the "University") is a co-educational, degree-granting university located in Wilberforce, Ohio. The University was originally established in 1887 by the General Assembly of the State of Ohio and is considered a component unit of the State of Ohio. The University continued to expand degree programs, which resulted in a granting of university status in 1965 by Statutory Act under Chapter 3343 of the Ohio Revised Code. The University is governed by a board of trustees appointed by the governor with the advice and consent of the State Senate. The University offers undergraduate degrees in arts and science, business, teacher education, and technology. The University also has a branch facility, CSU-Dayton, located in Dayton, Ohio.

In early 2014, the University was designated as an 1890 land-grant institution which will enable the University to receive the benefits of the Morrill Act of 1890, legislation that provides support for agricultural and scientific research and education.

The Central State University Foundation (the "Foundation") is being discretely presented as part of the University reporting entity (although it is a legally separate entity and governed by its own board of directors) because its sole purpose is to provide support for the University in accordance with GASB Statement No. 39. Separate statements for the Foundation may be obtained through the state of Ohio auditor's web site. The Foundation is a private organization that reports under FASB standards. As such, certain revenue recognition criteria and presentation features are different from those under the GASB. No modifications have been made to the Foundation financial information included in the University's financial report to account for these differences.

The Foundation is an Ohio nonprofit corporation and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation was formed to receive contributions, which are to be used to support the educational undertakings of Central State University. The Foundation established and owns Marauder Development, LLC, ("Marauder"), an Ohio limited liability corporation, that was formed to develop property for the use of Central State University. The financial operations of Marauder, which maintains a fiscal year end of August 31, have been consolidated within these financial statements. The Foundation also established Marauder West, LLC an Ohio limited liability corporation, which was formed to purchase property in Dayton for the location of the CSU - Dayton campus. Central State University Foundation and its wholly owned subsidiaries, Marauder and Marauder West, LLC, have been consolidated within these financial statements. All significant intercompany accounts and transactions have been eliminated. The Foundation operates exclusively for the benefit of the University. The University provides certain administrative and payroll services for the Foundation.

The University performs accounting services for the Foundation. Cash receipts for the Foundation are deposited directly to the Foundation bank account; however, disbursements are made by the University on behalf of the Foundation with a monthly cash settlement process.

(Continued)

CENTRAL STATE UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 1 - BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation: The accompanying financial statements have been prepared using the total economic resource measurement focus and the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America for publicly owned colleges and universities, and are presented in accordance with the reporting model as prescribed in GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No 65, *Items Previously Reported as Assets and Liabilities*. The College follows the "business-type" activities requirements of GASB Statement No. 34. This approach requires the following components of the University's financial statements:

- Management's discussion and analysis (unaudited)
- Basic financial statements, including a statement of net position, statement of revenue, expenses, and changes in net position, and a statement of cash flows for the University as a whole
- Notes to the financial statements

Net Position is classified into three major categories:

- Net Investment in Capital Assets: Capital assets, net of accumulated depreciation, reduced by the outstanding balances of debt and deferred inflows of resources related to the acquisition, construction, or improvement of those assets.
- Restricted: Owned by the University, but the use or purpose of the funds is restricted by an external source or entity. The restricted net position category is subdivided further into expendable and nonexpendable.
 - Restricted Nonexpendable: Endowment funds whose principal may be invested; however, only interest, dividends, and capital gains may be spent.
 - Restricted Expendable: May be spent by the institution, but only for the purpose specified by the donor, grantor, or other external entity. This category includes the unspent balance in grant funds, loan funds, debt service funds, and bond funded capital projects.
- Unrestricted: Resources derived primarily from student tuition, fees, state appropriations, and auxiliary enterprises. They are used for the general obligations of the University and may be used at the discretion of the board of trustees for any purpose furthering the University's mission.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the University's policy is to first apply restricted resources.

Cash and Cash Equivalents: Cash and cash equivalents include cash and money market funds, stated at cost (which approximates market).

(Continued)

CENTRAL STATE UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 1 - BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Student Accounts Receivable: The University uses a systematic method based on applying percentages to the student accounts receivable aging to determine the allowance for student accounts receivable.

Capital Assets: Capital assets are recorded at cost or, if acquired by gift, at acquisition value at the date of the gift. The University capitalizes all assets with a useful life greater than one year and a value in excess of \$5,000. When capital assets are disposed of, the net carrying value of such assets is removed from the accounts and the invested in capital assets component of net position is adjusted as appropriate. Capital assets, with the exception of land, are depreciated on the straight-line method over the following estimated lives:

Buildings	40 years
Building improvements	20 years
Automobiles, machinery, and equipment	3-15 years

Unearned Student Fee Income: Unearned student fee income consists of the unearned portion of student tuition and fees for the summer sessions and prepaid tuition and fees for the upcoming fall semester. The amounts which are unearned are recognized as revenue in the following fiscal year.

Pensions: For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net positions of the Ohio Public Employees Retirement System (OPERS) and the State Teachers Retirement System of Ohio (STRS) and additions to/deductions from OPERS and STRS' fiduciary net position have been determined on the same basis as they are reported by these pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

Operating Versus Nonoperating Revenue and Expenses: The University defines operating activities as reported on the statement of revenue, expenses, and changes in net position as those that generally result from exchange transactions such as payments received for providing goods or services. Nearly all of the University's expenses are a result of exchange transactions, and therefore classified as operating expenses. Federal grants, except for Pell grants, are considered to be operating revenue. The major recurring nonoperating expense is interest expense on capital asset related debt.

Certain significant revenue streams relied on for operations are reported as nonoperating revenue as required by GASB Statement No. 35, including state appropriations, investment income, and state capital grants. Federal Pell grant revenue is included in nonoperating revenue in accordance with GASB Statement No. 34.

Grants and Scholarships: Student tuition and fees and auxiliary revenue are presented net of grants and scholarships applied directly to students' accounts. Grants and scholarships consist primarily of awards to students from the Federal Supplemental Educational Opportunity Grant Program and the Ohio Instructional Grant Program. Payments made directly to students from grants and scholarships are presented as student aid.

Use of 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 amounts reported in the financial statements and disclosure in the footnotes. Actual results could differ from the estimates.

(Continued)

CENTRAL STATE UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 1 - BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes: The Foundation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The University would be subject to taxes on unrelated business income; however, any taxable income would be minimal.

Adoption of New Accounting Pronouncements – In fiscal year 2017, the provisions of the following GASB Statements became effective:

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, issued June 2015. The provisions of this Statement are effective for fiscal years beginning after June 15, 2016. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.
- GASB Statement No. 77, *Tax Abatement Disclosures*, issued August 2015. The requirements of this Statement are effective for reporting periods beginning after December 31, 2015. This Statement is intended to improve financial reporting by requiring disclosure of tax abatement information about a reporting government's own tax abatement agreements and those that are entered into by other governments and that reduce the reporting government's tax revenues. hierarchy of generally accepted accounting principles (GAAP).
- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, issued December 2015. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*.
- GASB Statement No. 80, *Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*, issued January 2016. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units.
- GASB Statement No. 82, *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73*, issued March 2016. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

None of these Statements had a significant impact on the University's financial statements.

(Continued)

NOTE 1 - BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Newly Issued Accounting Pronouncements – As of the report date, the GASB issued the following statements not yet implemented by the University:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, issued June 2015. The provisions of this Statement are effective for fiscal years beginning after June 15, 2017. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB).
- GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, issued March 2016. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.
- GASB Statement No. 83, *Certain Asset Retirement Obligations*, issued November 2016. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. This Statement addresses accounting and financial reporting for certain asset retirement obligations.
- GASB Statement No. 84, *Fiduciary Activities*, issued January 2017. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.
- GASB Statement No. 85, *Omnibus 2017*, issued March 2017. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements.
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*, issued May 2017. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt.
- GASB Statement No. 87, *Leases*, issued June 2017. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments.

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

Reclassifications: Certain prior year amounts have been reclassified for both the University and the Foundation to conform to the current year presentation. These reclassifications had no effect on previously reported changes in net position or total net position or previously reported changes in net position or total net position.

(Continued)

CENTRAL STATE UNIVERSITY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2017 and 2016

NOTE 2 - CASH AND CASH EQUIVALENTS AND INVESTMENTS

In accordance with the State of Ohio's and the University's policy, the University is authorized to invest in obligations of the U.S. Treasury, agencies and instrumentalities, municipal and state bonds, certificates of deposit collateralized at market value, repurchase agreements, reverse repurchase agreements, and forward commitments. Statutes also authorize the University to invest endowment funds in the above investments, as well as commercial paper rated A-1 by Standard & Poor's bonds, common and preferred stock, mutual funds, and real estate upon specific authorization by the board of trustees. Depository funds held in the name of the University are secured by a pool of securities with a value of at least 105% of the total value of monies on deposit at the depository bank. All collateral, both specific and pooled, is held by the Federal Reserve Bank or by a designated trustee as agent for the public depositories used by the University.

Custodial Credit Risk of Bank Deposits: Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to it. The University does not have a policy restricting custodial credit risk. The University did not have any uninsured or uncollateralized cash and cash equivalents at June 30, 2017 or 2016.

Credit Risk: Credit risk for deposits is the risk that, in the event of a bank failure, the University's deposits may not be returned to the University. As discussed above, state law limits investments to U.S., state, and municipal government obligations. The University has no investment policy that would further limit its investment choices. The University had \$4,959,518 and \$4,370,503 invested in money market mutual funds at June 30, 2017 or 2016, respectively; these funds are not rated by a national rating agency due to the short-term nature of their holdings. The difference in carrying amount and bank balance is caused by items in transit and outstanding checks.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. At June 30, 2017 or 2016, the University had no material exposure to foreign currency risk. The University does not address foreign currency risk in its investment policy and asset allocation guidelines.

Restricted Cash and Cash Equivalents: The University's restricted cash and cash equivalents consist of money market accounts restricted for debt reserve payments.

As required by the bond indenture, the Foundation, through Marauder, maintains restricted cash balances in the following accounts as of August 31, 2017 or 2016.

	<u>2017</u>	<u>2016</u>
Debt interest account	\$ 380,326	\$ 393,387
Debt principal account	570,254	545,000
Redemption fund	3,703	3,695
Repair and replacement fund	965,744	1,198,768
Debt reserve fund	<u>1,354,165</u>	<u>1,408,706</u>
 Total restricted cash	 <u>\$ 3,274,192</u>	 <u>\$ 3,549,556</u>

Investments are managed by a professional investment manager. The investment manager is subject to the Foundation's investment policies, which contain objectives, guidelines, and restrictions designed to provide for preservation of capital with emphasis on providing current income and achieving long-term growth of the funds.

(Continued)

CENTRAL STATE UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

The Foundation reports investments at estimated fair value, in accordance with the fair value hierarchy prescribed by ASC 820, *Fair Value Measurements and Disclosures* (formerly SFAS 157), which requires certain assets and liabilities to be reported at fair value in the financial statements and provides a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value. The following three-tier fair value hierarchy prioritizes the inputs used in measuring fair value:

Level 1 - Observable inputs such as quoted prices in active markets

Level 2 - Inputs, other than quoted prices in active markets, that are observable either directly or indirectly

Level 3 - Unobservable inputs for which there is little or no market data that requires the Foundation to develop assumptions

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

Investments of the Foundation include cash equivalents, equity mutual funds, and bond mutual funds. The Foundation records these investments at their current fair values based on quoted market prices in active markets for identical assets, which is consistent with Level 1 in the hierarchy.

If quoted market prices are not available, then fair values are estimated by using quoted market prices of securities with similar characteristics and are classified within Level 2 of the hierarchy. Level 2 securities include U.S. Government Obligations.

<u>Assets</u>	<u>Assets Measured at Fair Value on a Recurring Basis at June 30, 2017</u>			<u>Balance</u>
	Quoted prices in Active markets for Identical Assets <u>Level 1</u>	Significant Other Observable Inputs <u>Level 2</u>	Significant Unobservable Inputs <u>Level 3</u>	
Cash/money market accounts:				
Money market accounts	\$ 254,389	\$ -	\$ -	\$ 254,389
Subtotal	<u>254,389</u>	<u>-</u>	<u>-</u>	<u>254,389</u>
Private equity investments:				
Equity mutual funds	1,846,212	-	-	1,846,212
Subtotal	<u>1,846,212</u>	<u>-</u>	<u>-</u>	<u>1,846,212</u>
Fixed-income investments:				
Bond mutual funds	1,593,585	-	-	1,593,585
Subtotal	<u>1,593,585</u>	<u>-</u>	<u>-</u>	<u>1,593,585</u>
Total investments	<u>\$ 3,694,186</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,694,186</u>

(Continued)

CENTRAL STATE UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 2 - DEPOSITS AND INVESTMENTS (Continued)

<u>Assets</u>	<u>Assets Measured at Fair Value on a Recurring Basis at June 30, 2016</u>			<u>Balance</u>
	Quoted prices in Active markets for Identical Assets <u>Level 1</u>	Significant Other Observable Inputs <u>Level 2</u>	Significant Unobservable Inputs <u>Level 3</u>	
Private equity investments:				
Equity mutual funds	\$ 2,398,661	\$ -	\$ -	\$ 2,398,661
Subtotal	2,398,661	-	-	2,398,661
Fixed-income investments:				
U.S. gov't obligations	-	21,779	-	21,779
Bond mutual funds	1,989,889	-	-	1,989,889
Subtotal	1,989,889	21,779	-	2,011,668
Total investments	\$ 4,388,550	\$ 21,779	\$ -	\$ 4,410,329

NOTE 3 – RECEIVABLES

At June 30, 2017 or 2016, receivables consist of the following:

	<u>2017</u>	<u>2016</u>
Student accounts receivable	\$ 16,863,795	\$ 26,797,442
Student notes receivable	945,980	946,287
Grant and contract receivables	1,190,734	1,288,728
Other	1,269,652	352,896
Total	20,270,161	29,385,353
Less allowance for doubtful accounts	(13,934,591)	(15,488,041)
Net receivables	\$ 6,335,570	\$ 13,897,312

Student note receivables represent outstanding loans from the Federal Perkins Loan Program. These loans have been assigned to the Department of Education and are no longer administered by the University. The outstanding balance at June 30, 2017 or 2016 has been reserved in full and is included in the allowance for doubtful accounts.

(Continued)

CENTRAL STATE UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the University for the years ended June 30, 2017 or 2016 is summarized as follows:

<u>2017</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Ending Balance</u>
Depreciable assets:					
Buildings and improvements	\$ 183,492,651	\$ 726,868	\$ -	\$ 655,623	\$ 184,875,142
Automobiles, machinery, and equipment	26,449,367	4,738,174	-	497,000	31,684,541
Assets under capital lease	<u>626,933</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>626,933</u>
Total depreciable assets	210,568,951	5,465,042	-	1,152,623	217,186,616
Nondepreciable assets:					
Land improvements	308,650	-	-	-	308,650
Construction in progress	<u>1,569,275</u>	<u>3,660,112</u>	<u>-</u>	<u>(1,152,623)</u>	<u>4,076,764</u>
Total nondepreciable assets	<u>1,877,925</u>	<u>3,660,112</u>	<u>-</u>	<u>(1,152,623)</u>	<u>4,385,414</u>
Total capital assets	212,446,876	9,125,154	-	-	221,572,030
Less accumulated depreciation:					
Buildings and improvements	72,278,440	4,523,717	-	-	76,802,157
Automobiles, machinery, and equipment	19,693,756	1,202,090	-	-	20,895,846
Assets under capital lease	<u>523,240</u>	<u>60,643</u>	<u>-</u>	<u>-</u>	<u>583,883</u>
Total accumulated depreciation	<u>92,495,436</u>	<u>\$ 5,786,450</u>	<u>\$ -</u>	<u>\$ -</u>	<u>98,281,886</u>
Capital assets - Net	<u>\$ 119,951,440</u>				<u>\$ 123,290,144</u>

(Continued)

CENTRAL STATE UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 4 - CAPITAL ASSETS (Continued)

<u>2016</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Ending Balance</u>
Depreciable assets:					
Buildings and improvements	\$ 138,197,180	\$ 12,444,540	\$ -	\$ 32,871,680	\$ 183,513,400
Automobiles, machinery, and equipment	26,006,526	422,091	-	-	26,428,617
Assets under capital lease	<u>626,934</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>626,934</u>
Total depreciable assets	164,830,640	12,866,631	-	32,871,680	210,568,951
Nondepreciable assets:					
Land improvements	308,650	-	-	-	308,650
Construction in progress	<u>28,077,131</u>	<u>6,363,826</u>	<u>-</u>	<u>(32,871,680)</u>	<u>1,569,277</u>
Total nondepreciable assets	<u>28,385,781</u>	<u>6,363,826</u>	<u>-</u>	<u>(32,871,680)</u>	<u>1,877,927</u>
Total capital assets	193,216,421	19,230,457	-	-	212,446,878
Less accumulated depreciation:					
Buildings and improvements	68,432,633	3,853,414	-	-	72,286,047
Automobiles, machinery, and equipment	18,480,477	1,205,671	-	-	19,686,148
Assets under capital lease	<u>406,054</u>	<u>117,188</u>	<u>-</u>	<u>-</u>	<u>523,242</u>
Total accumulated depreciation	<u>87,319,164</u>	<u>\$ 5,176,273</u>	<u>\$ -</u>	<u>\$ -</u>	<u>92,495,437</u>
Capital assets - Net	<u>\$ 105,897,257</u>				<u>\$ 119,951,441</u>

The State of Ohio Air Quality Development Authority Tax Exempt Revenue Bonds authorized up to \$16.5 million to be spent on a variety of energy conservation construction projects over fiscal years 2014 and 2015 to include replacing the existing centralized boiler system. These projects were financed from the proceeds of the bond issuance which are maintained with The Huntington National Bank as bond trustee.

Capital assets activity for the Foundation for the years ended June 30, 2017 and 2016 is summarized as follows:

	<u>2017</u>	<u>2016</u>
Land	\$ 140,800	\$ 140,800
Building	16,519,103	16,519,103
Furniture and fixtures	<u>896,603</u>	<u>896,603</u>
Total capital assets	17,556,506	17,556,506
Less accumulated depreciation	<u>(6,409,876)</u>	<u>(5,985,762)</u>
Net capital assets	<u>\$ 11,146,630</u>	<u>\$ 11,570,744</u>

(Continued)

CENTRAL STATE UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 5 - LONG-TERM LIABILITIES

Long-term liability (other than long-term debt and capital lease) activity for the years ended June 30, 2017 and 2016 is summarized as follows:

<u>2017</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reduction</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Compensated absences	\$ 1,412,375	\$ 760,367	\$ 793,375	\$ 1,379,367	\$ 795,567
Other liabilities	102,127	43,416	-	145,543	-
Net pension liability	<u>26,832,141</u>	<u>8,740,696</u>	<u>2,125,565</u>	<u>33,447,272</u>	<u>-</u>
Total	<u>\$ 28,346,643</u>	<u>\$ 9,544,479</u>	<u>\$ 2,918,940</u>	<u>\$ 34,972,182</u>	<u>\$ 795,567</u>
<u>2016</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reduction</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Compensated absences	\$ 1,482,590	\$ 372,518	\$ 442,732	\$ 1,412,376	\$ 831,635
Voluntary Severance Program	513,364	-	513,364	-	-
Other liabilities	69,494	32,633	-	102,127	-
Net pension liability	<u>24,376,359</u>	<u>4,382,074</u>	<u>1,926,292</u>	<u>26,832,141</u>	<u>-</u>
Total	<u>\$ 26,441,807</u>	<u>\$ 4,787,225</u>	<u>\$ 2,882,388</u>	<u>\$ 28,346,644</u>	<u>\$ 831,635</u>

Other long term liabilities for the years ended June 30 2017 and 2016 include litigation and contingencies as discussed further in Note 11. During fiscal year 2016, the final payment was made related to the Voluntary Severance Program. The current portion of long-term liabilities is included in accrued salaries, wages, and benefits. See Note 8 for description of compensated absences.

(Continued)

CENTRAL STATE UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 6 - LONG-TERM DEBT

Long-term debt for the University consists of the following for the years ended June 30, 2017 and 2016:

<u>2017</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reduction</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Notes payable:					
Bond payable to 1st Niagara, 1.594 percent, payable in varying installments through December 1, 2022	\$ 7,369,145	\$ -	\$ 1,014,171	\$ 6,354,974	\$ 1,030,337
Bond payable to 1st Niagara, 3.7 percent, payable in varying installments through December 1, 2028	7,000,000	-	-	7,000,000	-
Loan payable to Regions Bank, 2.426 percent, payable in varying installments through 2043	12,673,823		337,237	12,336,586	345,468
Note payable to the Department of Education, 5.5 percent, payable in varying installments through November 1, 2021	<u>899,274</u>	<u>-</u>	<u>144,196</u>	<u>755,078</u>	<u>152,236</u>
Total	<u>\$ 27,942,242</u>	<u>\$ -</u>	<u>\$ 1,495,604</u>	<u>\$ 26,446,638</u>	<u>\$ 1,528,041</u>
<u>2016</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reduction</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Notes payable:					
Bond payable to 1st Niagara, 1.594 percent, payable in varying installments through December 1, 2022	\$ 8,367,404	\$ -	\$ 988,259	\$ 7,369,145	\$ 1,014,171
Bond payable to 1st Niagara, 3.7 percent, payable in varying installments through December 1, 2028	7,000,000	-	-	7,000,000	-
Loan payable to The Bank of New York Mellon Trust Company 2.426 percent, payable in varying installments through 2043	-	13,126,315	452,492	12,673,823	337,237
Note payable to the Department of Education, 5.5 percent, payable in varying installments through November 1, 2021	<u>1,035,855</u>	<u>-</u>	<u>136,581</u>	<u>899,274</u>	<u>144,196</u>
Total	<u>\$ 16,403,259</u>	<u>\$ 13,126,315</u>	<u>\$ 1,587,332</u>	<u>\$ 27,942,242</u>	<u>\$ 1,495,604</u>

(Continued)

CENTRAL STATE UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 6 - LONG-TERM DEBT (Continued)

Principal and interest payments on long-term debt are as follows:

Fiscal Year	Regions Bank		Note - P142A80004		Bond Series A		Bond Series B		Payment Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	
2018	\$ 345,468	\$ 297,214	\$ 152,236	\$ 39,464	\$1,030,337	\$ 93,087	\$ -	\$ 259,000	\$ 2,216,806
2019	352,287	290,395	160,724	30,976	1,046,761	79,532	-	259,000	2,216,675
2020	363,281	279,400	169,686	22,015	1,063,446	59,714	-	259,000	2,216,542
2021	371,365	271,317	179,147	12,554	1,080,397	42,627	-	259,000	2,216,407
2022	380,429	262,253	93,285	98,416	1,097,619	25,268	-	259,000	2,216,270
2023-2027	2,045,238	1,168,170	-	-	1,036,414	8,260	4,658,523	944,564	9,861,169
2028-2032	2,306,950	906,457	-	-	-	-	2,341,477	86,796	5,641,680
2033+	6,171,568	897,927	-	-	-	-	-	-	7,069,495
	<u>\$ 12,336,586</u>	<u>\$ 4,373,133</u>	<u>\$ 755,078</u>	<u>\$ 203,425</u>	<u>\$6,354,974</u>	<u>\$ 305,488</u>	<u>\$ 7,000,000</u>	<u>\$ 2,326,360</u>	<u>\$33,655,044</u>

Revenue from student housing and dining facilities is pledged for the redemption of the DOE notes.

The University is required to maintain a debt service payment account and a debt service reserve account under the Department of Education note. The debt service account has been paid in full as of June 30, 2008 and the reserve is no longer required. The University is also required to deposit \$28,010 annually into a repair and replacement reserve account until \$280,100 has been accumulated in that account, which occurred by June 30, 2013.

Pledges of Future Revenues – The University has pledged revenues from student housing and dining facilities to repay the DOE notes. The DOE note was issued to the University and is payable through November 1, 2021. If the pledged revenues from this source are insufficient to provide for the principal and interest payments on the bonds, available operating funds would be used to make the payments. The total principal and interest remaining to be paid on the note is \$958,503. Principal and interest paid for the current year was \$191,700 and the revenues from student housing and dining facilities was \$9,143,008.

(Continued)

CENTRAL STATE UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 6 - LONG-TERM DEBT (Continued)

The Series A bonds were dated May 3, 2013 and issued at par therefore no bond discount was recorded. The bonds mature on December 1 in various amounts ranging from \$200,000 on December 1, 2013 to \$1,036,414 on December 1, 2022. Interest, at 1.594%, is payable semiannually on December 1 and June 1. Interest expense related to the Series A bonds during the years ended June 30, 2017 and 2016 was \$109,381 and \$125,420, respectively.

The Series B bonds were dated May 3, 2013 and issued at par therefore no bond discount was recorded. The Series B bonds mature after the Series A bonds are fully redeemed. The Series B bonds mature on December 1 in various amounts ranging from \$78,701 on December 1, 2022 to \$1,175,089 on December 1, 2028. Interest, at 3.7%, is payable semiannually on December 1 and June 1, beginning December 1, 2013. Interest expense related to the Series B bonds during the years ended June 30, 2017 and 2016 was \$259,000 in each year.

On September 24, 2013 The Series A 2013-9 Bond were issued through the Historically Black College and University Capital Loan Financing Program, via the Federal Financing Bank for the Central State University Project. A modification of the loan agreement was necessary due to directives from the Department of Education and the Last Day of Advance were modified on October 21, 2015 which permitted the funding of the loan. Funding by FFB occurred on October 23, 2015 totaling \$13,126,315 and two wires were sent to The Bank of New York Mellon Trust Company, N.A. for this amount.

On October 12, 2016 the loan was assigned from The Bank of New York Mellon Trust Company, N.A to Regions Bank, N.A.

The bonds for this bond issuance mature on December 1 in various amounts ranging from \$287,315 on December 1, 2015 to \$317,500.22 on June 1, 2043. Interest, at 2.426%, is payable semiannually on December 1 and June 1. Interest expense related to the Series A 2013-9 bonds during the year ended June 30, 2017 and June 30, 2016 was \$305,445 and 190,189, respectively.

Central State University Foundation

On May 30, 2014, the Foundation obtained a commercial loan in the amount of \$491,326 from PNC Bank to purchase property for use as a Presidential residence and hospitality center. Under the terms of the agreement, the Foundation will make 59 monthly principal payments beginning July 1, 2014 amortized over 20 years with the remaining balance due on the maturity date, May 30, 2019. The terms of the loan include a variable interest rate of five-year COF plus 3%. At June 30, 2017, the interest rate was 4.2139%. The commercial loan is collateralized with \$490,264 of unrestricted cash held in a money market account at PNC Bank.

Mandatory principal payments on the note in each of the next two years are as follows:

2018	\$ 25,000
2019	<u>391,327</u>
Total	<u>\$ 416,327</u>

(Continued)

CENTRAL STATE UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 6 - LONG-TERM DEBT (Continued)

Marauder Development, LLC has the following debt related to the financing of student dormitories. Information is for the subsidiary's year ended August 31, 2017 and 2016:

	<u>Interest Rate</u>	<u>Maturity</u>	Balance August 31, <u>2016</u>	<u>Additions</u>	<u>Payments</u>	Balance August 31, <u>2017</u>
Revenue Bonds Series 2002	3.0%-5.625%	2030	\$ 5,338,507	\$ 7,800	\$ (245,000)	\$ 5,101,307
Revenue Bonds Series 2004	3.3%-5.1%	2035	<u>9,650,789</u>	<u>11,200</u>	<u>(300,000)</u>	9,361,989
Total			<u>\$ 14,989,296</u>	<u>\$ 19,000</u>	<u>(545,000)</u>	14,463,296
Less current portion						<u>570,000</u>
Long-term portion						<u>\$ 13,893,296</u>

	<u>Interest Rate</u>	<u>Maturity</u>	Balance August 31, <u>2015</u>	<u>Additions</u>	<u>Payments</u>	Balance August 31, <u>2016</u>
Revenue Bonds Series 2002	3.0%-5.625%	2030	\$ 6,414,567	\$ 8,940	\$ (1,085,000)	\$ 5,338,507
Revenue Bonds Series 2004	3.3%-5.1%	2035	<u>9,924,267</u>	<u>11,522</u>	<u>(285,000)</u>	<u>9,650,789</u>
Total			<u>\$ 16,338,834</u>	<u>\$ 20,462</u>	<u>\$ (1,370,000)</u>	14,989,296
Less current portion						<u>545,000</u>
Long-term portion						<u>\$ 14,444,296</u>

Principal and interest payments on Marauder's long-term debt are as follows:

	<u>Series 2002 Bonds</u>		<u>Series 2004 Bonds</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
Year ending August 31,					
2018	\$ 260,000	\$ 274,994	\$ 310,000	\$ 471,498	\$ 1,316,492
2019	275,000	261,103	325,000	456,794	1,317,597
2020	285,000	246,053	340,000	440,275	1,311,328
2021	300,000	230,331	360,000	422,775	1,313,106
2022	320,000	213,669	375,000	404,400	1,313,069
2023-2027	1,895,000	778,216	2,180,000	1,712,202	6,565,418
2028-2032	1,810,000	201,944	2,795,000	1,083,113	5,890,057
2033-2037	<u>-</u>	<u>-</u>	<u>2,795,000</u>	<u>293,632</u>	<u>3,088,632</u>
Total	<u>\$ 5,145,000</u>	<u>\$ 2,206,310</u>	<u>\$ 9,480,000</u>	<u>\$ 5,284,839</u>	<u>\$ 22,115,699</u>

(Continued)

CENTRAL STATE UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 6 - LONG-TERM DEBT (Continued)

During 2002, Marauder issued \$8,870,000 of Student Housing Revenue Bonds, Series 2002, to retire commercial loans used to finance the construction of the 2002 University Housing Project. The unamortized bond discount is \$43,693 and \$51,493 at August 31, 2017 and 2016, respectively, and is being amortized to interest expense on the interest method over the life of the bonds. The bonds mature on September 1 in various amounts ranging from \$260,000 on September 1, 2017, to \$415,000 on September 1, 2030, subject to prior mandatory sinking fund redemptions. During 2016, \$200,00 of bonds due on September 1, 2032, \$545,000 of bonds due on September 1, 2031 and \$105,000 of bonds due on September 1, 2030 were called and retired in addition to \$235,000 scheduled to be retired on September 1, 2015. During 2015, \$85,000 of bonds due on September 1, 2032, were called and retired in addition to \$225,000 scheduled to be retired on September 1, 2014. The bonds are collateralized by the building.

During 2004, Marauder issued \$12,150,000 in University Housing Revenue Bonds, Series 2004, to finance construction of the 2004 University Housing Project. The unamortized bond discount is \$118,011 and \$129,210 at August 31, 2017 and 2016, respectively, and is being amortized to interest expense on the interest method over the life of the bonds. The bonds mature on September 1 in various amounts ranging from \$300,000 on September 1, 2016, to \$750,000 on September 1, 2035, subject to prior mandatory sinking fund redemptions. Interest, at rates varying from 3.3 to 5.1 percent per annum, is payable semiannually on March 1 and September 1. The bonds are collateralized by the building.

Bond Legislation provides that Marauder Development, LLC, will charge rates sufficient for the excess of revenues over expenditures to equal not less than 120 percent of the aggregate amount of principal and interest requirements on the bonds payable during the year (coverage ratio). As of June 30, 2017 and 2016, Marauder Development, LLC was in compliance with these requirements.

NOTE 7 - CAPITAL LEASE OBLIGATIONS

The University entered into various non-cancellable equipment lease agreements during 2012 and 2013. These leases are accounted for as capital leases and the final principal payments of \$120,817 were made under the agreements during the year ended June 30, 2016.

The cost of the assets was \$626,933 and accumulated depreciation totaled \$583,883 and \$523,240 at June 30, 2017 and 2016, respectively.

NOTE 8 - COMPENSATED ABSENCES FOR VACATION AND SICK LEAVE

The University has three classifications of employees: classified, contract, and faculty.

Classified employees are nonacademic, permanent, full-time employees. Classified employees are entitled to vacation leave based upon length of service. The employees may accumulate up to a maximum of 30 to 75 days of vacation leave, depending on number of years of service. Vacation leave becomes payable upon termination or retirement. Employees may accumulate an unlimited amount of sick leave. One-third of accumulated sick leave is payable to classified employees with 10 years or more of service upon termination or retirement.

(Continued)

NOTE 8 - COMPENSATED ABSENCES FOR VACATION AND SICK LEAVE (Continued)

Contract employees are nonacademic, contracted, full-time employees. Contract employees are entitled to vacation leave based upon length of service and/or classification. The employee may accumulate up to a maximum of 30 days of vacation leave. Vacation leave not to exceed 240 hours becomes payable upon termination or retirement. Contract employees accrue sick leave at a rate of 15 days per year. One-third of accumulated sick leave, not to exceed one-third of 120 days, is payable to contract employees with 10 years or more of service upon retirement.

Faculty employees are full-time, academic employees. Faculty employees accrue sick leave at a rate of 15 days per year. One-third of accumulated sick leave, not to exceed one-third of 120 days, is payable to faculty employees with 10 years or more of service upon retirement.

NOTE 9 - RETIREMENT PLANS

Plan Descriptions: University faculty are provided with pensions through the State Teachers Retirement System of Ohio (STRS). Substantially all other University employees are provided with pensions through the Ohio Public Employees Retirement System (OPERS). Both OPERS and STRS are statewide cost-sharing multiple employer defined benefit pension plans. Authority to establish and amend benefits for OPERS and STRS are authorized [by Chapters 145 and 3307, respectively, of] the Ohio Revised Code. Both OPERS and STRS issue publicly available financial reports. The OPERS report can be obtained at <https://www.opers.org/investments/cafr.shtml>. The STRS report can be obtained at <https://www.strsoh.org/publications/annualreports/cafrs.html>.

OPERS and STRS Ohio each offer three separate retirement plans: a defined benefit plan, a defined contribution plan, and a combined plan.

OPERS and STRS Defined Benefit Plans pay service retirement benefits using a fixed formula based on age, years of service and salary. In addition to service retirement, participants are eligible for disability and survivor benefits.

OPERS Member-Directed Plan and STRS Defined Contribution Plan are optional alternative retirement plans available to new members. Participants allocate both member and employer contributions in investment choices provided by STRS Ohio. Benefits are based on the member's account value.

OPERS and STRS Combined Plans offer features of both a defined benefit plan and a member-directed or 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 along with disability and survivor benefits.

Benefits Provided: OPERS and STRS provide retirement, disability, annual cost-of-living adjustments, and survivor benefits for plan members and beneficiaries. The benefit provisions stated in the following paragraphs are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

OPERS Benefits

Under OPERS, retirement benefits are specific to each plan and members must meet the eligibility requirements based on their age and years of service within the plan. Retirement eligibility also varies by division and transition group.

(Continued)

NOTE 9 - RETIREMENT PLANS (Continued)

Members who were eligible to retire under law in effect prior to SB 343 before January 7, 2023 are included in transition Groups A and B. Group C includes those members who are not in either of the other groups and members who were hired on or after January 7, 2013.

State and Local members in transition groups A and B are eligible for retirement benefits at age 60 with 5 years of service credit or at age 55 with 25 or more years of service credit. Group C for State and Local is eligible for retirement at age 57 with 25 years of service or at age 62 with 5 years of service.

Under the Traditional Plan, for Groups A and B, the annual benefit is based on 2.2% of final average salary multiplied by the actual years of service for the first 30 years of service credit and 2.5% for years of service in excess of 30 years. For Group C the annual benefit applies a factor of 2.2% for the first 35 years and a factor of 2.5% for the years of service in excess of 35. Final average salary represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career. Under the Combined Plan, the benefit formula for the defined benefit component of the plan for State and Local members in transition Groups A and B applies a factor of 1.0% to the member's final average salary for the first 30 years of service. A factor of 1.25% is applied to years of service in excess of 30. The benefit formula for transition Group C applies a factor of 1.0% to the member's final average salary and the first 35 years of service and a factor of 1.25% is applied to years in excess of 35. Persons retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit. The defined contribution portion of the benefit is based on accumulated member contributions plus or minus any investment gains or losses on those contributions.

Member-Directed participants must have attained the age of 55, have money on deposit in the Defined Contribution Plan and have terminated public service to apply for retirement benefits. The amount available for defined contribution benefits in the Member-Directed Plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections. At retirement, members may select one of several distribution options for payment of the vested balance of their individual OPERS accounts.

The OPERS law enforcement program consists of two separate divisions: Law Enforcement and Public Safety. Both groups of members are eligible for special retirement options under the Traditional Pension Plan and are not eligible to participate in the Member-Directed or Combined plans. Public Safety Group members may file an application for full retirement benefits at age 48 or older with 25 or more years of credited service or 52 or older with 15 or more years of credited service for Groups A and B. Public Safety Group C is eligible for benefits at age 52 or older with 25 years or at age 56 or older with 15 years. Those members classified as Law Enforcement officers are eligible for full retirement at age 52 or older with 15 or more years of credited service for Group A. Law Enforcement Group B is eligible at age 48 or older with 25 years or at age 52 or older with 15 years of service. Law Enforcement Group C is eligible at age 48 or older with 25 years of service or at age 56 with 15 years of service. Annual benefits under both divisions are calculated by multiplying 2.5% of final average salary by the actual years of service for the first 25 years of service credit, and 2.1% of final average salary for each year of service over 25 years. In the Combined Plan, the benefit formula for the defined benefit component of the plan for state and local members in transition Groups A and B applies a factor of 1.0% to the member's FAS and the first 30 years of service. A factor of 1.25% is applied to years of service in excess of 30. The benefit formula for transition Group C applies a factor of 1.0% to the member's FAS and the first 35 years of service and a factor of 1.25% is applied to years in excess of 35. These options also permit early retirement under qualifying circumstances as early as age 48 with a reduced benefit.

(Continued)

NOTE 9 - RETIREMENT PLANS (Continued)

OPERS administers two disability plans for participants in the Traditional Pension and Combined plans. Members in the plan as of July 29, 1992, could elect coverage under either the original plan or the revised plan. All members who entered the System after July 29, 1992, are automatically covered under the revised plan. Under the original plan, a member who becomes disabled before age 60 and has completed 60 contributing months is eligible for a disability benefit. Benefits are funded by the employee and employer contributions and terminate if the member is able to return to work. The revised plan differs in that a member who becomes disabled at any age with 60 contributing months will be eligible for disability benefits until a determined age. The benefit is funded by reserves accumulated from employer contributions. Law Enforcement officers are immediately eligible for disability benefits if disabled by an on-duty illness or injury. Members participating in the Member-Directed Plan are not eligible for disability benefits.

Dependents of deceased members who participated in either the Traditional Pension Plan or the Combined Plan may qualify for survivor benefits if the deceased employee had at least one and a half years of service credit with the plan, and at least one quarter year of credit within the two and one-half years prior to the date of death. Law Enforcement and Public Safety personnel are eligible for survivor benefits immediately upon employment.

Once a benefit recipient retiring under the Traditional Pension Plan has received benefits for 12 months, an annual 3% cost-of-living adjustment is provided on the member's base benefit. Members retiring under the Combined Plan receive a 3% cost-of-living adjustment on the defined benefit portion of their benefit.

STRS Benefits

Under the Defined Benefit Plan, on or before July 1, 2015, benefits are based on 2.2% of final average salary for the three highest years of earnings, multiplied by years of total Ohio service credit. The percentages increase if the member has 35 or more years of contributing service credit. Effective Aug. 1, 2015, benefits are based on an annual amount equal to 2.2% of final average salary for the five highest years of earnings, multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective Aug. 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 and five years of service on Aug. 1, 2026.

Under the Combined Plan, member contributions are allocated among investment choices by the member and employer contributions are used to fund the defined benefit payment at a reduced level from the regular Defined Benefit Plan. Benefits are based on the balance in the member's defined contribution account plus an annual amount equal to 1% of final average salary for the three highest paid years multiplied by years of total Ohio service credit. Effective Aug. 1, 2015, final average salary will be average of the member's five highest salary years. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the Combined Plan may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

The Defined Contribution Plan allows members to place all their member and 9.5% of employer contributions into an investment account. Investment allocation decisions are determined by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

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NOTE 9 - RETIREMENT PLANS (Continued)

A Defined Benefit Plan or Combined Plan member with five or more years of credited service who is determined to be disabled (illness or injury preventing individual's ability to perform regular job duties for at least 12 months) may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least 10 years of qualifying service credit to apply for disability benefits. Disability benefits are determined in the same manner as retirement benefits. Members in the Defined Contribution Plan who become disabled are entitled only to their account balance. If a member of the Defined Contribution Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Under the Defined Benefit Plan, members will receive a 2% annual cost of living adjustment beginning on the fifth anniversary of retirement. Under the Combined Plan, a cost of living adjustment is not available on the service retirement benefit. For disability and survivor benefits, the basic benefit is increased each year by 2% of the original base benefit.

Contributions

OPERS Contributions

Employer and member contribution rates are established by the OPERS Board subject to limits per Chapter 145 of the Ohio Revised Code. Under the OPERS plans, the employee contribution rate for the years ended June 30, 2017 and 2016 is 10% for all employees with the exception of law enforcement. The law enforcement contribution rate was 12.6% through December 31, 2013 and increased to 13% effective January 1, 2014. The employer contribution rate is 14% for all employees with the exception of law enforcement whose rate is 18.1%. For Member-Directed Plans, for the years ended June 30, 2017 and 2016, 13.23% was paid into the member's member-directed account and the remaining .77% was paid to OPERS, as required by state legislation, to cover unfunded liabilities.

The University's contributions to OPERS were \$1,273,018, \$1,132,212, and \$1,174,454 for the fiscal years ended June 30, 2017, 2016, and 2015, respectively. The University's contributions were equal to the required contributions for each year as set by state statute.

STRS Contributions

Employer and member contribution rates are established by the STRS Board and limited by Chapter 3307 of the Ohio Revised Code. Under the STRS plans, the employee contribution rate is 14% and 13%, for years ended June 30, 2017 and 2016, respectively. Under the Combined Plan, 1% of the employee contribution is to fund the defined benefit. The employer contribution rate is 14%. Under the Defined Contribution Plan, 4.5 percent of the employer contribution is used to amortize the unfunded actuarial accrued liability of the defined benefit plan.

The University's contributions to STRS for the years ended June 30, 2017, 2016, and 2015, respectively, were \$852,547, \$794,080, and \$799,062. The University's contributions were equal to the required contributions as set by state statute.

(Continued)

CENTRAL STATE UNIVERSITY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2017 and 2016

NOTE 9 - RETIREMENT PLANS (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

OPERS Pension Costs

At June 30, 2017 and 2016, the University reported a liability of \$14,074,575 and \$10,633,211, respectively for its proportionate share of the OPERS net pension liability. The net pension liability was measured as of December 31, 2016 and 2015, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The University's proportion of the net pension liability was based on the University's long-term share of contributions to OPERS relative to the total projected long-term employer contributions received from all of OPERS' participating employers. At December 31, 2016 and 2015, the University's proportion was 0.0621% and 0.0615%, respectively, representing a 0.006% change in proportionate share. At December 31, 2015 and 2014, the University's proportion was 0.0615% and 0.0657%, respectively, representing a (0.0042)% change in proportionate share.

The net pension liability and asset for the Traditional Pension Plan and Combined Plan, respectively, were measured as of December 31, 2016 and 2015, and the total pension liabilities were determined by an actuarial valuation as of that date.

For the years ended June 30, 2017 and 2016, the University recognized pension expense of \$1,828,332 and \$159,797, respectively. At June 30, 2017 and 2016, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>2017</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 19,802	\$ 96,478
Changes of assumptions	2,242,436	-
Net difference between projected and actual earnings on pension plan investments	2,105,812	-
Changes in proportion and differences between the difference between actual and proportionate share of contributions	50,690	179,478
University contributions subsequent to the measurement date	<u>660,839</u>	<u>-</u>
Total	<u>\$ 5,079,578</u>	<u>\$ 275,955</u>
<u>2016</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 1,317	\$ 221,896
Net difference between projected and actual earnings on pension plan investments	3,163,969	-
Changes in proportion and differences between the difference between actual and proportionate share of contributions	-	333,905
University contributions subsequent to the measurement date	<u>580,506</u>	<u>-</u>
Total	<u>\$ 3,745,792</u>	<u>\$ 555,801</u>

(Continued)

CENTRAL STATE UNIVERSITY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2017 and 2016

NOTE 9 - RETIREMENT PLANS (Continued)

For 2017, deferred outflows of resources includes the University's proportionate share of the effects of changes in assumptions resulting from OPERS experience study for the period 2011 through 2015. Information from this study led to changes in both demographic and economic assumptions, with the most notable being a reduction in the expected rate of investment return from an 8.0% actuarially assumed rate of return down to 7.5%, for the defined benefit investments.

At June 30, 2017, the University reported \$660,839 as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to OPERS pensions will be recognized in pension expense as follows for the year ended June 30, 2017:

2018	\$ 1,634,257
2019	1,824,722
2020	745,271
2021	(60,725)
2022	(568)
Thereafter	(173)

STRS Pension Costs

At June 30, 2017 and 2016, the University reported a liability of \$19,372,697 and \$16,198,930, respectively, for its proportionate share of the STRS net pension liability. The net pension liability was measured as of July 1, 2016 and 2015, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The University's proportion of the net pension liability was based on the University's long-term share of contributions to the pension plan relative to the total employer contributions from all participating STRS employers. At June 30, 2017 and 2016, the University's proportion was 0.0578% and 0.0586%, respectively, representing a (0.008)% change in proportionate share. At June 30, 2016 and 2015, the University's proportion was 0.0586% and 0.0677%, respectively, representing a (0.0091)% change in proportionate share.

For the years ended June 30, 2017 and 2016, the University recognized pension expense of \$(3,676) and \$(649,661), respectively. At June 30, 2017 and 2016, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>2017</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 782,750	\$ -
Net difference between projected and actual earnings on pension plan investments	1,608,454	
Difference between actual and proportionate share of contributions University contributions subsequent to the measurement date	<u>800,437</u>	<u>1,729,399</u>
Total	<u>\$ 3,191,642</u>	<u>\$ 1,729,399</u>

(Continued)

CENTRAL STATE UNIVERSITY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2017 and 2016

NOTE 9 - RETIREMENT PLANS (Continued)

<u>2016</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 738,467	\$ -
Net difference between projected and actual earnings on pension plan investments	-	1,165,009
Difference between actual and proportionate share of contributions	-	2,082,739
University contributions subsequent to the measurement date	<u>794,080</u>	<u>-</u>
 Total	 <u>\$ 1,532,547</u>	 <u>\$ 3,247,748</u>

At June 30, 2017, the University reported \$800,437 as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to STRS pensions will be recognized in pension expense as follows for the year ended June 30, 2017:

2018	\$ (217,062)
2019	(217,062)
2020	505,124
2021	590,806

Actuarial Assumptions

OPERS Actuarial Assumptions

The total pension liability in the December 31, 2016 and 2015 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>2016</u>	<u>2015</u>
Inflation	3.25%	3.75%
Salary increases (average, including inflation)	3.25%-10.75%	4.25% – 10.05%
Investment rate of return	7.50%	8.00%
Cost of living adjustment (simple)	3.00%	3.00%

Mortality rates are based on the RP-2014 Healthy Annuitant Mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled Mortality tables, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

(Continued)

CENTRAL STATE UNIVERSITY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2017 and 2016

NOTE 9 - RETIREMENT PLANS (Continued)

The actuarial assumptions used in the December 31, 2016 and 2015 valuation were based on the results of an actuarial experience study for the five-year period ended December 31, 2011 and 2010, respectively.

The allocation of investment assets within the Defined Benefit portfolio is approved by the OPERS Board as outlined in the annual investment plan. The long term expected rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The following table displays the Board-approved asset allocation policy for 2016 and 2015 and the long-term expected real rates of return:

<u>Asset Class Return</u>	<u>2016 Target Allocation</u>	<u>2016 Long-Term Expected Real Rate of Return</u>
Fixed income	23.00%	2.75%
Domestic equity	20.70	6.34
International equity	18.30	7.95
Real estate	10.00	4.75
Private equity	10.00	8.97
Other	<u>18.00</u>	4.92
Total	<u>100.00%</u>	

<u>Asset Class Return</u>	<u>2015 Target Allocation</u>	<u>2015 Long-Term Expected Real Rate of Return</u>
Fixed income	23.00%	2.31%
Domestic equity	20.70	5.84
International equity	18.30	7.40
Real estate	10.00	4.25
Private equity	10.00	9.25
Other	<u>18.00</u>	4.59
Total	<u>100.00%</u>	

STRS Actuarial Assumptions

The total pension liability in the July 1, 2016 and 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Salary increases	12.25% at age 20 to 2.75% at age 70
Investment rate of return	7.75 percent, net of pension plan investment expense
Cost-of-living adjustments	2% simple applied as follows: for members retiring before Aug. 1, 2013, 2% per year; for members retiring Aug. 1, 2013, or later, 2% COLA paid on fifth anniversary of retirement date

(Continued)

CENTRAL STATE UNIVERSITY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2017 and 2016

NOTE 9 - RETIREMENT PLANS (Continued)

In March 2017, the STRS Ohio Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75% to 7.45%. In April 2017, the STRS Ohio Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to the University's net pension liability is expected to be significant.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the July 1, 2016 and 2015 valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The table below is representative of estimates for both the 2016 and 2015 valuation years. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

<u>Asset Class Return</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	18.00%	3.75%
Domestic equity	31.00	8.00
International equity	26.00	7.85
Alternative investments	14.00	8.00
Real estate	10.00	6.75
Liquidity reserves	<u>1.00</u>	3.00
 Total	 <u>100.00%</u>	

Discount rate: The discount rate used to measure OPERS total pension liability was 7.5% as of December 31, 2016 and 8.0% as of December 31, 2015. The projection of cash flows used to determine the discount rates assumed that employee and University contributions will be made at the statutory contribution rates. Based on those assumptions, the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for both the Traditional Pension Plan and the Combined Plan was applied to all periods of projected benefit payments to determine the total pension liability.

The discount rate used to measure STRS total pension liability was 7.75% as of June 30, 2016 and 2015. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at the statutory contribution rates in accordance with the rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016 and 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75% was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2016 and 2015.

(Continued)

CENTRAL STATE UNIVERSITY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2017 and 2016

NOTE 9 - RETIREMENT PLANS (Continued)

Sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate: The following presents the University's proportionate share of the OPERS pension plans net pension liability calculated using the discount rate of 7.5% and 8.0% at December 31 2016 and 2015, respectively, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

<u>2017</u>	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
University's proportionate share of the net pension liability	\$21,541,871	\$14,074,575	\$7,853,504

<u>2016</u>	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
University's proportionate share of the net pension liability	\$ 16,981,092	\$ 10,633,211	\$ 5,280,118

The following presents the University's proportionate share of the STRS pension plans net pension liability calculated using the discount rate of 7.75%, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

<u>2017</u>	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
University's proportionate share of the net pension liability	\$ 25,744,741	\$ 19,372,697	\$ 13,997,504

<u>2016</u>	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
University's proportionate share of the net pension liability	\$ 22,501,536	\$ 16,198,930	\$ 10,869,137

Pension plan fiduciary net position: Detailed information about OPERS and STRS fiduciary net position is available in the separately issued financial reports. Financial reports for OPERS may be obtained at www.opers.org or by writing to Ohio Public Employees Retirement System, Director-Finance, 277 East Town Street, Columbus, Ohio 43215-4642. Financial reports for STRS may be obtained at strsoh.org or by writing to State Teachers Retirement System of Ohio, Attn: Chief Financial Officer, 275 E. Broad St., Columbus, OH 43215-3771.

NOTE 10 - 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.

(Continued)

NOTE 10 - POSTEMPLOYMENT BENEFITS (Continued)

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 and Combined Plans was 2.0% during calendar years 2016 and 2015. The portion of employer contributions allocated to health care for members in the Traditional and Combined Plans was 1.0% during calendar year 2013. 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. The portion of the University's calendar year 2016, 2015, and 2014 contributions required and made to OPERS used to fund post-retirement benefits was \$23,880, \$23,489, and \$27,375, respectively.

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 the year ended June 30, 2014. Effective July 1, 2014, 0% of covered payroll was allocated to post-employment health care. The portion of the University's fiscal years 2017, 2016, and 2015 contributions required and made to STRS Ohio used to fund post-employment benefits was \$0, \$0, and \$0, respectively.

NOTE 11 - GRANTS AND CONTRACTS

The University receives grants and contracts from certain federal, state, and local agencies to fund research and other activities. The costs, both direct and indirect, that have been charged to their grants or contracts are subject to examination and approval by the granting agency. It is the opinion of the University administration that any potential disallowance or adjustment of such costs would not have a material effect on the accompanying financial statements.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Commitments: The University has encumbered \$2,083,398 and \$522,940 of funds as of June 30, 2017 and 2016, respectively. These encumbrances represent purchase orders and other commitments for materials or services not received as of fiscal year end. These are not included as liabilities in the statement of net position.

Litigation: The University is involved in various litigation and regulatory matters. Based upon management's review, the ultimate disposition of these matters may have an unfavorable outcome; therefore, appropriate financial reserves have been made to the financial statements relative to these matters. The University's administration believes that the ultimate disposition of these matters have been properly reflected in the financial statements of the University.

(Continued)

CENTRAL STATE UNIVERSITY
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 June 30, 2017 and 2016

NOTE 13 - RELATED ORGANIZATION

The University is the sole beneficiary of the Central State University Foundation (the "Foundation"), a separate, not-for-profit entity governed by a separate board of trustees, organized for the purpose of promoting educational and research activities. Amounts received by the University from the Foundation in the form of private gifts, grants, and contracts amounted to \$74,983 and \$337,756 for the years ended June 30, 2017 and 2016, respectively.

The Foundation established and owns Marauder Development, LLC, which owns two residence halls (Foundation I and Foundation II) located on the University's campus. The University receives an annual management fee and the reimbursement of operating expenses from Marauder Development, LLC. These fees and reimbursement amounted to \$1,234,173 and \$1,466,890 for the years ended June 30, 2017 and 2016, respectively. The University paid Marauder Development, LLC \$3,022,440 and \$2,996,789 for the years ended June 30, 2017 and 2016, respectively. These payments were primarily student residence hall fees.

Details of the Foundation's restricted net assets at June 30, 2017 and 2016 are as follows:

<u>2017</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Academic	\$ 481,960	\$ 758,582
Scholarship	1,074,940	995,752
Other general funds	<u>1,167,830</u>	<u>842,515</u>
Total net assets	<u>\$ 2,724,730</u>	<u>\$ 2,596,849</u>
<u>2016</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Academic	\$ 436,472	\$ 646,298
Scholarship	1,049,484	1,220,457
Other general funds	<u>961,257</u>	<u>706,610</u>
Total net assets	<u>\$ 2,447,213</u>	<u>\$ 2,573,365</u>

Net assets released from restriction totaled \$417,721 and \$508,165 at June 30, 2017 and 2016, respectively.

NOTE 14 – RISK MANAGEMENT

The University participates in a state plan that pays workers' compensation benefits to beneficiaries who have been injured on the job with any of certain state agencies and state universities. The Ohio Bureau of Workers' Compensation (the "Bureau") calculates the estimated amount of cash needed in the subsequent fiscal year to pay the claims for these workers and sets rates to collect this estimated amount from these participating state agencies and universities in that subsequent one-year period. As these already-injured workers' claims will be paid out over a period of time, the Bureau also actuarially calculates estimated amounts that will be paid in future periods for the entire pool of state agencies and state universities. Settled claims have not exceeded this coverage for any of the preceding three years.

(Continued)

CENTRAL STATE UNIVERSITY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE 14 – RISK MANAGEMENT (Continued)

The University is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors or omissions; employee injuries and illnesses; national disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage for any of the preceding three years. Effective July 1, 2015, the University is no longer self-insured for student health claims.

REQUIRED SUPPLEMENTARY INFORMATION

CENTRAL STATE UNIVERSITY
 SCHEDULES OF UNIVERSITY'S PROPORTIONATE SHARE OF
 THE NET PENSION LIABILITY
 Year ended June 30, 2017

<u>OPERS</u>	<u>2017</u>
College's proportion of the collective net pension liability (asset) - Traditional	0.06209%
College's proportion of the collective net pension liability (asset) - Combined	0.04439%
College's proportionate share of the collective net pension liability (asset)	\$ 14,074,575
College's covered payroll	8,946,079
College's proportionate share of the collective net pension liability as a percentage of the employer's covered payroll	157.33%
Plan fiduciary net position as a percentage of the total pension liability	77.38%
	<u>2016</u>
College's proportion of the collective net pension liability (asset) - Traditional	.06153%
College's proportion of the collective net pension liability (asset) - Combined	.05127%
College's proportionate share of the collective net pension liability (asset)	\$ 10,633,211
College's covered payroll	7,925,689
College's proportionate share of the collective net pension liability as a percentage of the employer's covered payroll	134.16%
Plan fiduciary net position as a percentage of the total pension liability	81.19%
	<u>2015</u>
College's proportion of the collective net pension liability (asset) - Traditional	.06570%
College's proportion of the collective net pension liability (asset) - Combined	.04948%
College's proportionate share of the collective net pension liability (asset)	\$ 7,905,345
College's covered payroll	8,232,618
College's proportionate share of the collective net pension liability as a percentage of the employer's covered payroll	96.02%
Plan fiduciary net position as a percentage of the total pension liability	84.00%

Note: The University implemented GASB No. 68 in fiscal year 2015. The information above is presented for as many years as available. The schedule is intended to show information for 10 years. The amounts presented for each fiscal year were determined as of December 31 that occurred prior.

(Continued)

CENTRAL STATE UNIVERSITY
 SCHEDULES OF UNIVERSITY'S PROPORTIONATE SHARE OF
 THE NET PENSION LIABILITY
 Year ended June 30, 2017

<u>STRS Ohio</u>	<u>2017</u>
College's proportion of the collective net pension liability (asset)	0.0579%
College's proportionate share of the collective net pension liability (asset)	\$ 19,372,698
College's covered payroll	5,757,345
College's proportionate share of the collective net pension liability as a percentage of the employer's covered payroll	297.19%
Plan fiduciary net position as a percentage of the total pension liability	66.8%
	<u>2016</u>
College's proportion of the collective net pension liability (asset)	.05861%
College's proportionate share of the collective net pension liability (asset)	\$ 16,198,930
College's covered payroll	5,668,086
College's proportionate share of the collective net pension liability as a percentage of the employer's covered payroll	285.79%
Plan fiduciary net position as a percentage of the total pension liability	72.1%
	<u>2015</u>
College's proportion of the collective net pension liability (asset)	.06772%
College's proportionate share of the collective net pension liability (asset)	\$ 16,471,015
College's covered payroll	5,700,090
College's proportionate share of the collective net pension liability as a percentage of the employer's covered payroll	288.96%
Plan fiduciary net position as a percentage of the total pension liability	74.7%

Note: The University implemented GASB No. 68 in fiscal year 2015. The information above is presented for as many years as available. The schedule is intended to show information for 10 years. The amounts presented for each fiscal year were determined as of June 30 that occurred prior.

CENTRAL STATE UNIVERSITY
 SCHEDULES OF UNIVERSITY CONTRIBUTIONS
 Year ended June 30, 2017

<u>OPERS</u>	<u>2017</u>
Statutorily required contribution	\$ 1,273,018
Contributions in relation to the statutorily required contribution	1,273,018
Annual contribution deficiency	-
College's covered payroll	8,946,079
Contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percent of the employer's covered payroll	14.23%
	<u>2016</u>
Statutorily required contribution	\$ 1,132,211
Contributions in relation to the statutorily required contribution	1,132,211
Annual contribution deficiency	-
College's covered payroll	7,925,689
Contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percent of the employer's covered payroll	14.29%
	<u>2015</u>
Statutorily required contribution	\$ 1,174,454
Contributions in relation to the statutorily required contribution	1,174,454
Annual contribution deficiency	-
College's covered payroll	8,232,618
Contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percent of the employer's covered payroll	14.26%

Note: The University implemented GASB No. 68 in fiscal year 2015. The information above is presented for as many years as available. The schedule is intended to show information for 10 years.

(Continued)

CENTRAL STATE UNIVERSITY
 SCHEDULES OF UNIVERSITY CONTRIBUTIONS
 Year ended June 30, 2017

<u>STRS Ohio</u>	<u>2017</u>
Statutorily required contribution	\$ 852,547
Contributions in relation to the statutorily required contribution	852,547
Annual contribution deficiency	-
College's covered payroll	5,757,345
Contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percent of the employer's covered employee payroll	14.81%
	<u>2016</u>
Statutorily required contribution	\$ 794,080
Contributions in relation to the statutorily required contribution	794,080
Annual contribution deficiency	-
College's covered payroll	5,668,086
Contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percent of the employer's covered payroll	14.01%
	<u>2015</u>
Statutorily required contribution	\$ 799,062
Contributions in relation to the statutorily required contribution	799,062
Annual contribution deficiency	-
College's covered payroll	5,700,090
Contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percent of the employer's covered payroll	14.02%

Note: The University implemented GASB No. 68 in fiscal year 2015. The information above is presented for as many years as available. The schedule is intended to show information for 10 years.

SUPPLEMENTARY INFORMATION

CENTRAL STATE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2017

Federal Grants/Pass-Through Grant/Program Title	Federal CFDA Number	Pass-through Award	Awards to Subrecipient	Federal Expenditures
STUDENT FINANCIAL ASSISTANCE CLUSTER				
U.S. Department of Education Direct Programs				
PELL Grant Program	84.063			\$ 6,318,715
Federal Supplemental Educational Opportunity Grant	84.007			563,048
Federal Work-Study Program	84.033			713,304
TEACH Grant	84.379			20,215
Federal Perkins Loan Program	84.038			945,980
Federal Direct Loan Program	84.268			<u>13,858,177</u>
Total Student Financial Assistance Cluster				22,419,439
RESEARCH AND DEVELOPMENT CLUSTER				
National Aeronautics and Space Administration				
Ohio Space Grant	43.001			<u>7,757</u>
Total National Aeronautics and Space Administration				7,757
National Science Foundation – Direct Awards				
Center for Cyber Sensors	47.076			32,663
Integrated Geoscience Curriculum for Workforce Development for Oil and Gas Industry (IGC)	47.076			25,271
Software Defined Radio Lab Platform	47.076			51,470
Collaborative RET Site	47.041			64,334
Center for Cyber Sensors – Supplemental	47.076			1,726
Multi-Phase porous Media Flows	47.076			120,990
USE4WRM	47.076			41,197
Improving Pathways for STEM	47.076			<u>247,239</u>
Total National Science Foundation – Direct Awards				584,890
National Science Foundation – Pass-through Programs				
ADVANCE	47.076	HRD-0810989		3,134
Center for Layered Polymeric Systems (CLiPS)	47.049	DMR-0423914		357
Ohio LSAMP Alliance	47.076	HRD-1304371		47,449
Northern Ohio AGEP-T	47.076	HRD-1432950		<u>33,500</u>
Total National Science Foundation – Pass through Programs				84,440
U.S. Department of Defense – Passed-through Programs:				
Basic and Applied Scientific Research:				
Sensors Research	12.300	FA8650-13-C-5800		19,283
Additive Manufacturing Parts	12.300	FA8650-13-C-5800		28,472
Li-Ion Batteries	12.300	FA8650-13-C-5800		<u>33,769</u>
Total U.S. Department of Defense				<u>81,524</u>
Total Research and Development Cluster				758,611

(Continued)

CENTRAL STATE UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2017

Federal Grants/Pass-Through Grant/Program Title	Federal CFDA Number	Pass-through Award	Awards to Subrecipient	Federal Expenditures
TRIO CLUSTER				
U.S. Department of Education Direct Programs:				
TRIO: Student Support Services	84.042			357,561
TRIO: Upward Bound Program	84.047			<u>264,334</u>
Total TRIO Cluster				621,895
OTHER FEDERAL PROGRAMS				
U.S. Department of Education Direct Programs				
HIGHER EDUCATION - INSTITUTIONAL AID – Direct Program	84.031B			3,374,762
U.S. Department of Health and Human Services:				
HET: Triple Jeopardy Health Environment, passed-through	93.360	12OU05QU14		31,577
U.S. Department of Transportation – Passed-through Programs:				
University Transportation Center	20.701	DTRT12-G-UTC05		852
FHWA Summer Transportation Institute 2016	20.205			47,668
FHWA Summer Transportation Institute 2017	20.205			<u>30,634</u>
Total U.S. Department of Transportation				79,154
U.S. Department of Agriculture				
USDA/1890 National Scholars Program	10.001			21,248
McIntire Sennis Forestry Research	10.202			49,901
Evans-Allen Formula Fund	10.205			483,970
Strengthening Capacity and Advance the Quality Technology Weed Disruption	10.216 10.216		\$ 20,330	180,457 <u>70,117</u> 250,574
Pathways to a B.A in Agriculture	10.217			21,781
Technical Assistance and Financial Education	10.406			23,272
Building Sustainable Networks	10.443		\$ 28,840	75,954
2014-2017 Facilities Grant	10.500			472,605
Section 1444 Extension Programs/Land Grant Colleges	10.500			605,950
Smith Lever Act, Expanded Food and Nutrition Program	10.500			<u>40,838</u>
Total USDA Cooperative Extension Service				1,119,393
2015 Summer Food Service Program	10.559			934
Agriculture Innovations Plus	10.902			579,150
Seed 2 Bloom	10.902			<u>4,834</u>
Total U.S. Department of Agriculture				<u>583,984</u> 2,631,011
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 29,916,449</u>

See Notes To Schedule Of Expenditures Of Federal Awards

CENTRAL STATE UNIVERSITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2017

NOTE 1 - BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the University under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net position, or cash flows of Central State University.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The University has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance and instead uses indirect cost rates as follows per the respective grant agreements:

<u>Federal Program Title</u>	<u>CFDA Number</u>	<u>Indirect Cost Rate</u>
ADVANCE	47.076	75%
Center for Cyber Sensors	47.076	43%
Center for Layered Polymeric Systems (CLiPS)	47.049	43%
Integrated Geoscience Curriculum for Workforce Development for Oil and Gas Industry (IGC)	47.076	43%
Ohio LSAMP Alliance	47.076	45%
Software Defined Radio Lab Platform	47.076	43%
Collaborative RET Site	47.041	45%
Center for Cyber Sensors - Supplemental	47.076	45%
Improving Pathways for STEM	47.076	45%
Northern Ohio AGEP-T	47.076	45%
Multi-Phase porous Media Flows	47.076	45%
USE4WRM	47.076	45%
Sensors Research	12.000	45%
Additive Manufacturing Parts	12.000	45%
Li-Ion Batteries	12.000	45%
TRIO: Student Support Services	84.042	8%
TRIO: Student Support Services	84.042	8%
TRIO: Upward Bound Program 2012-17	84.047	8%
TRIO: Upward Bound Program 2017-2022	84.047	8%
HET: Triple Jeopardy Health Empowerment	93.630	10%
University Transportation Center	20.701	43%
FHWA Summer Transportation Institute 2016	20.205	15%
FHWA Summer Transportation Institute 2017	20.205	15%
Technical Assistance and Financial Education	10.406	45%
Building Sustainable Networks for Agribusiness Enterprises for Socially Disadvantaged Farmers and Ranchers	10.443	45%
1890 Capacity Building Grants: A Potential for Building and Strengthening Capacity and Advancing the Quality of Teaching and Extension	10.216	43%
Agriculture Innovations Plus (AI+)	10.902	45%
Pathways to a BA in Agriculture	10.217	30%
Seed 2 Bloom	10.902	45%
Technology Weed Disruption	10.216	43%

(Continued)

CENTRAL STATE UNIVERSITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2017

NOTE 2 – FEDERAL LOAN PROGRAMS

The University participates in the Federal Direct Students Loan Program (84.268) which includes Direct Subsidized Loans, Direct Unsubsidized Loans, and Direct PLUS Loans. The University originates but does not provide funding for Federal Direct Student Loans.

The amount outstanding for the Federal Perkins Loan Program (84.038) at June 30, 2017 is \$945,980. There were no new loans disbursed under the Federal Perkins Loan Program for the fiscal year ended June 30, 2017.

**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**

Management and Board of Trustees
Central State University
Wilberforce, 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 the discretely presented component unit of Central State University as of and for the year ended June 30, 2017, and the related notes to the financial statements which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 13, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Central 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 opinion on the effectiveness of Central State University's internal control. Accordingly, we do not express opinion on the effectiveness of Central 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 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 were not identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Central 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, slightly slanted style.

Crowe Horwath LLP

Columbus, Ohio
October 13, 2017

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

Management and Board of Trustees
Central State University
Wilberforce, Ohio

Report on Compliance for Each Major Federal Program

We have audited Central State University's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Central State University's major federal programs for the year ended June 30, 2017. Central 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 federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Central State University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Central 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 Central State University's compliance.

Opinion on Each Major Federal Program

In our opinion, Central 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, 2017.

(Continued)

Report on Internal Control Over Compliance

Management of Central 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 Central 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 Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Central 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2017-001 - 2017-002, that we consider to be significant deficiencies.

The University's response to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Columbus, Ohio
October 13, 2017

CENTRAL STATE UNIVERSITY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year ended June 30, 2017

PART I: SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP

Unmodified

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)?

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

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

CENTRAL STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2017

PART I: SUMMARY OF AUDITORS' RESULTS (Continued)

<u>Name of Major Program Identified</u>	<u>CFDA Number</u>
U.S. Department of Education Student Financial Aid Cluster:	
Federal Pell Grant Program	84.063
Federal Work-Study Program	84.033
Federal Supplemental Educational Opportunity Grants	84.007
Federal Direct Loan Program	84.268
TEACH Grant	84.379
USDA Cooperative Extension Service	10.500
Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee? _____ Yes <u> X </u> No	

PART II: FINANCIAL STATEMENT FINDINGS SECTION

There were no financial statement findings.

(Continued)

CENTRAL STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2017

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

Finding 2017-001

Federal Program Information: Student Financial Aid Cluster

Criteria: Return of Title IV Funds- 34 CFR 668.22

Condition: The University improperly calculated the amount of Title IV funds to return for all official withdrawals.

Context: We noted that all official withdraws were calculated incorrectly due to using an incorrect number of days in the term for both fall and spring. In addition, the University did not properly report amounts of Title IV aid disbursed to certain students when performing the calculation, which lead to issues with funds not being returned and post withdrawal disbursements not being issued.

Questioned costs: \$15,587

Effect: An improper amount of funds were returned for all official withdrawals. The students only impacted by the error in the dates had \$1,354 over-returned by the University. \$13,301 of funds were not returned due to errors in the calculations. \$932 of post withdrawal disbursements were not issued to eligible students.

Cause: The financial aid staff did accurately identify scheduled breaks when calculating the number of days in the terms and also did not accurately input information for a number of the calculations, resulting in both improper amounts returned and post-withdrawal disbursements not being issued.

Repeat Finding: No

Recommendation: We recommend that the University review and update its policies and procedures in place over processing and review of R2T4 calculations.

Views of responsible officials and planned corrective actions: Management concurs with the finding. See separate corrective action plan document.

(Continued)

CENTRAL STATE UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2017

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

Finding 2017-002

Federal Program Information: Federal Direct Loan Program – 84.268

Criteria: 34 CFR Section 668.165

Condition: The University did not send loan notifications to recipients of Federal Direct PLUS loans. In addition, there were instances in which other loan notifications were not sent within the required timeframe.

Context: Twenty-seven students in a sample of 60 either received late notification or did not receive notification for PLUS disbursements.

Questioned costs \$0

Effect: Students either did not receive required notifications or received them later than the date they were required to be sent by.

Cause: Due to staff limitations in the financial aid office, timely notifications were not completed. Also notification of PLUS disbursements was a new requirement in the current fiscal year and was not identified by the University.

Repeat Finding: No

Recommendation: We recommend the University send all required loan notifications and do so in a timely manner.

Views of responsible officials and planned corrective actions: Management concurs with the finding. See separate corrective action plan document.

CENTRAL STATE UNIVERSITY
SUMMARY OF PRIOR YEAR FINDINGS
Year ended June 30, 2016

SUMMARY OF PRIOR YEAR FINDINGS

Finding 2016-001

Criteria: The University should have internal controls over a financial reporting process designed to ensure that the financial statements are presented in accordance with accounting principles generally accepted in the United State of America. In addition, the University's reporting and closing process should include timely reconciliations and schedules that support the amounts recorded in the financial statements.

Condition: Reconciliations and draft financial statements were not prepared timely. In addition, proposed adjusting journal entries were made during the audit.

Status: Corrected

Finding 2016-002

Federal Program Information: Pell Grant Program, CFDA #84.063

Criteria: 34 CFR 690.62 Calculation of a Federal Pell Grant. (a) The amount of a student's Pell Grant for an academic year is based upon the payment and disbursement schedules published by the Secretary for each award year.

Condition: Pell Grants were not awarded according to the 2015-2016 Pell Grant payment schedules.

Status: Corrected

Finding 2016-003

Federal Program Information: Federal Direct Loan Program, CFDA #84.268

Criteria: 34 CFR § 685.203 Loan limits.

Condition: Federal Direct Loans were under and over-awarded.

Status: Corrected

Finding 2016-004

Federal Program Information: Student Financial Aid Cluster

Criteria: 34 CFR 668.56 Information to be verified; 34 CFR 668.59 Consequence of a change in an applicant's FAFSA information; 34 CFR 668.60 Deadlines for submitting documentation and the consequences of failing to provide documentation; and 34 CFR 668.61 Recovery of amounts from interim disbursements.

Condition: Verification procedures were not completed as required.

Status: Corrected



Administration and Finance Office

PO BOX 1004 ♦ WILBERFORCE OH 45384 ♦ 937-376-6201 ♦ FAX 937-376-6253

October 13, 2017

CORRECTIVE ACTION PLAN

RE: MAJOR FEDERAL AWARD AUDIT FINDINGS AND QUESTIONED COSTS SECTION

Finding 2017-001: Student Financial Aid Cluster

Corrective Action: Since the issue was brought to light, the University has completed a full file review for all official withdrawals and returned funds that should have been returned. The University had staff changes and the staff who made these errors is no longer here. Furthermore, the University has verified the dates for the calendar based on the 2017-2018 academic calendar. In addition, procedural pages with more detail have been created and additional training will be provided to the new staff working on R2T4 and both the Assistant Director and the Director will double check a portion of calculations per month to insure accuracy.

Responsible Person – Director of Student Financial Aid

Anticipated Completion Date – Implemented

Finding 2017-002: Federal Direct Loan Program – 84.268

Corrective Action: The University had staff changes and the new staff who will be sending out notifications has been trained on the procedures and is very aware of the deadlines. We have queries set up to determine who should be notified. While PLUS notifications are a new requirement, we are “manually” looking up parent borrower’s email addresses and sending notifications electronically. We are currently looking for a way to find the email addresses of the parent borrower via query similar to the process for student notifications.

Responsible Person – Director of Student Financial Aid

Anticipated Completion Date – November 30th, 2017



Dave Yost • Auditor of State

CENTRAL STATE UNIVERSITY

GREENE 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 28, 2017**