

# **Shawnee State University**

(a component unit of the State of Ohio)

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**Financial Report**  
**with Supplementary Information**  
**June 30, 2019**



OHIO AUDITOR OF STATE  
KEITH FABER



88 East Broad Street  
Columbus, Ohio 43215  
IPARepoort@ohioauditor.gov  
(800) 282-0370

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

We have reviewed the *Independent Auditor's Report* of Shawnee State University, Scioto County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2018 through June 30, 2019. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads 'Keith Faber'.

Keith Faber  
Auditor of State  
Columbus, Ohio

November 13, 2019

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# Shawnee State University

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## Independent Auditor's Report

To the Board of Trustees  
Shawnee State University

### Report on the Financial Statements

We have audited the accompanying basic financial statements of Shawnee State University (the "University") and its discretely presented component unit as of and for the years ended June 30, 2019 and 2018 and the related notes to the financial statements, which collectively comprise Shawnee State University's basic financial statements, as listed in the table of contents. These financial statements are reported as a component unit of the State of Ohio.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

#### *Opinion*

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the net position of Shawnee State University and its discretely presented component unit as of June 30, 2019 and 2018 and the changes in its net position and its cash flows where applicable for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees  
Shawnee State University

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the University's proportionate share of the net pension liability, the schedule of university pension contributions, the schedule of the University's proportionate share of the net OPEB liability, and the schedule of university OPEB contributions, as indicated in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Shawnee State University's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for the purpose of additional analysis and is not a required part of the basic financial statements.

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2019 on our consideration of Shawnee State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Shawnee State University's internal control over financial reporting and compliance.

*Plante & Moran, PLLC*

October 14, 2019



# Shawnee State University

## Management's Discussion and Analysis (Unaudited)

This unaudited section of Shawnee State University's (the "University") annual financial report presents a discussion and analysis of the financial performance of the University during the fiscal year ended June 30, 2019. This discussion, prepared by university management, provides an overview of the University's financial activities and should be evaluated in conjunction with the accompanying financial statements and footnotes.

This annual report consists of the statements of net position, revenue, expenses, and changes in net position, and cash flows. These statements have been prepared in accordance with the Governmental Accounting Standards Board's (GASB) Statements No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and No. 35, *Basic Financial Statements and Management's Discussion and Analysis - for Public Colleges and Universities*, as amended.

In addition, in accordance with GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, GASB Statement No. 61, *The Financial Reporting Entity*, and GASB Statement No. 80, *Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14 - Omnibus*, Shawnee State University Development Foundation's (the "Foundation") financial statements have been included in this annual report. This information has been provided on separate financial statements and in a note to the financial statements. Shawnee State University's management's discussion and analysis reflects only information related to the University.

### **Financial Highlights**

Key financial highlights for 2019 are as follows:

- Total net position decreased \$2,443,701. The decrease is primarily the result of a \$1,704,674 decline in student tuition and fee revenue, a decrease of \$1,415,933 in federal, state and local grant and contract revenue and a \$343,333 decrease in investment revenue.
- Total assets decreased \$5,170,278 as a result of the liquidation of investment holdings to supplement the University's cash needs during the year.
- Noncurrent assets (excluding capital assets) decreased \$5,972,755 as the result of the liquidation of restricted investments to fund Bond Series 2016 construction projects and a reduction in investments held by the University for cash needs.
- Total Deferred Outflows of Resources increased \$634,865 mainly due to the deferred portion of the GASB Statement No. 68 pension expense adjustment.

# Shawnee State University

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

- The \$2,049,120 decrease in total liabilities was primarily due to a \$966,617 in long term debt during the year and the \$954,157 decrease to Accounts Payable accounts.
- Total deferred inflows of resources decrease of \$42,592 is primarily due to the \$1,860,295 decrease and the \$1,877,208 increase in deferred pension costs related to GASB Statement No. 68 and Statement No. 75, respectively.
- Total revenue decreased \$2,402,601 from 2018 to 2019 compared with a decrease of \$5,389,377 from 2017 to 2018. The decrease was primarily due to a \$1,704,674 decrease in student tuition and fees revenue, a \$1,415,933 decrease in federal, state and local grant and contract revenue and a \$1,180,112 increase in state capital appropriation revenue.
- Total expenses increased \$6,977,396 primarily due to the \$839,470 GASB 68 and 75 reduction of 2019 pension expenses being \$11,147,171 less than the 2018 reduction of pension expense of \$11,986,641. The \$11,147,171 GASB 68 and 75 expense increase was partially offset by \$534,318 reduction in scholarship expenses, \$491,175 reduction in auxiliary expenses and a \$268,917 reduction in operation and maintenance of plant expenses.
- Operating expenses increased \$7,012,784 primarily as a result of the 2018 \$11,986,641 GASB 68 and 75 reduction of pension expense being \$11,147,171 more than the 2019 \$839,470 reduction of pension expense.
- Operating revenue decreased by \$2,575,018 primarily due to a \$1,704,674 decrease of student tuition and fees. Operating grant revenue (revenue for projects which result in an "exchange" like a product, report or some form of an outcome) was down \$849,458 and nonoperating grant revenue (grants that are not exchange transactions, such as scholarship grants like Pell, SEOG, OCOG) was down \$566,475.
- Nonoperating revenue decreased \$1,007,695 as a result of a \$566,475 decrease in nonoperating grant revenue and a \$343,333 decrease in investment revenue. Nonoperating expenses decreased \$35,388 as a result of a decrease in interest expense on related debt and losses on the disposal of capital assets in 2019.

### **Using this Financial Report**

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

# Shawnee State University

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

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

The statement of net position and statement of revenue, expenses, and changes in net position present information about the University and its activities in a way that helps answer the question, "How did Shawnee State University do financially during 2019?" The statement of net position includes all short-term and long-term assets and liabilities, both financial and capital and deferred outflows or inflows of resources. The accrual basis of accounting is used for the recording of revenue and expenses. This basis of accounting records revenue when earned and expenses when incurred, regardless of when the cash is actually received or paid. Over time, increases or decreases in net position are one indicator of the improvement or deterioration of the University's financial health. Nonfinancial factors such as student retention rate, enrollment growth, and condition of facilities must also be considered.

#### **Statement of Net Position**

The statement of net position, which reports all assets and liabilities of the University, reflects the financial position of the University at the end of the fiscal year. Total assets and deferred outflows of resources minus total liabilities and deferred inflows of resources equal net position. The University's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of June 30, 2019, 2018, and 2017 are presented below:

# Shawnee State University

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

	2019	2018	2017
<b>Assets</b>			
Current assets	\$ 6,644,831	\$ 6,717,677	\$ 5,804,390
Capital assets - Net	82,339,293	81,463,970	81,450,795
Other noncurrent assets	<u>13,384,136</u>	<u>19,356,891</u>	<u>25,070,240</u>
Total assets	102,368,260	107,538,538	112,325,425
<b>Deferred Outflows of Resources</b>	11,888,528	11,253,663	12,939,645
<b>Liabilities</b>			
Current liabilities	7,561,123	8,799,530	7,305,898
Noncurrent liabilities	<u>69,237,964</u>	<u>70,048,677</u>	<u>78,383,850</u>
Total liabilities	76,799,087	78,848,207	85,689,748
<b>Deferred Inflows of Resources</b>	<u>8,165,320</u>	<u>8,207,912</u>	<u>2,051,088</u>
<b>Net Position</b>			
Net investment in capital assets	66,457,561	66,291,426	67,208,092
Restricted, expendable	249,245	173,500	168,546
Unrestricted	<u>(37,414,425)</u>	<u>(34,728,844)</u>	<u>(29,852,404)</u>
Total net position	<u>\$ 29,292,381</u>	<u>\$ 31,736,082</u>	<u>\$ 37,524,234</u>

Total assets of the University decreased \$5,170,278 in 2019 and decreased \$4,786,887 in 2018. Current assets decreased \$72,846 in 2019 following a \$913,287 increase in 2018. The decrease in 2019 was the result of a \$567,596 reduction in accounts receivables and a \$447,604 decrease in amounts due from primary government for state funded construction projects. The decrease in receivables was offset by a \$789,397 increase in cash from the liquidation of investment holdings in 2019. The 2018 increase is predominantly attributable to the liquidation of investment holdings to supplement the University's cash needs during the year. Noncurrent assets (excluding capital assets) decreased \$5,972,755 in 2019 and \$5,713,349 in 2018 due to the utilization of the Bond Series 2016 funding for new capital projects related to the debt.

The increased number of capital construction projects initiated in 2019 resulted in an increase of \$875,323 in net capital assets. The \$13,175 increase of net capital assets in 2018 was due to depreciation expense and the loss on disposals of capital assets equaling the cost of construction projects completed during 2018.

The \$2,049,120 decrease in total liabilities in 2019 consisted primarily of a \$954,157 reduction in accounts payable in addition to reductions of \$655,000 in bonds payable and \$321,617 in capital lease payable. The \$6,841,541 decrease in total liabilities in 2018 was primarily due to the \$19,031,393 decrease to recognize the University's

# Shawnee State University

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

proportionate share of the net pension liability as determined by the two pension plans associated with the University, the State Teachers Retirement System and Ohio Public Employees Retirement System, as required by GASB Statement No. 68. The net pension liability related to GASB Statement No. 68 is partially offset by the \$11,774,361 increase as the result of the implementation of GASB Statement No. 75 to recognize the University's proportionate share of the net other postemployment benefits (OPEB) as determined by the two pension plans associated with the University. See Note 13 to the financial statements for further details.

# Shawnee State University

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

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

The statement of revenue, expenses, and changes in net position presents the results of operations for the University. The change in net position during the fiscal year is a measurement of the change in the overall financial condition of the University. The University's revenue, expenses, and changes in net position for the fiscal years ended June 30, 2019, 2018, and 2017 are as follows:

	2019	2018	2017
Operating revenue:			
Tuition, fees, and other student charges	\$ 18,728,350	\$ 20,433,024	\$ 22,116,470
Grants and contracts	3,263,392	4,112,850	3,854,225
Sales and services	2,038,280	2,207,409	1,969,224
Miscellaneous income	645,169	496,926	331,241
Nonoperating revenue:			
Investment income	578,900	922,233	1,790,009
State appropriations	15,713,910	15,811,797	15,811,534
Other grants	10,694,220	11,260,695	12,566,441
Capital appropriations	2,448,624	1,268,512	3,463,679
Total revenue	54,110,845	56,513,446	61,902,823
Operating expenses:			
Instruction and research	15,586,625	8,890,534	21,416,995
Public service	2,331,144	2,060,195	2,565,655
Academic support	2,813,696	2,677,238	3,050,404
Student services	4,775,638	4,286,628	4,441,226
Institutional support	11,594,379	10,916,284	11,420,704
Operation and maintenance of plant	4,525,012	4,793,929	5,260,516
Scholarships and fellowships	4,796,425	5,330,743	6,083,506
Depreciation	3,687,479	3,650,888	3,607,092
Auxiliary enterprises	6,034,425	6,525,600	6,640,647
Nonoperating expense:			
Interest on capital debt	409,363	437,761	1,081,197
Loss on disposal of capital assets	360	7,350	214,171
Total expenses	56,554,546	49,577,150	65,782,113
(Decrease)increase in net position	<u>\$ (2,443,701)</u>	<u>\$ 6,936,296</u>	<u>\$ (3,879,290)</u>

# Shawnee State University

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

Shawnee State University is dedicated to its mission of providing higher education that fosters competence in oral and written communication, scientific and quantitative reason, and critical analysis/logical thinking. To enrich the lives of the community, the University provides opportunities for continuing personal and professional development, intellectual discovery, and appreciation for the creative and performing arts. The University charges students' tuition and fees in accordance with approved university policy, as constrained by state laws. Based on state regulations, there was no change in rates charged for continuing undergraduate in-state tuition and fees during 2019 and 2018. Beginning with the Fall 2018 term, the University did implement a new tuition guarantee program for all new first time freshmen students. The Shawnee Advantage Tuition plan guarantees students a flat tuition rate for up to five years while attending the University. Each new fiscal year, the tuition rate will be adjusted for that year's incoming freshmen class. Rates charged for undergraduate out-of-state students and all graduate students increased 2.5 percent effective in the fall 2017 semester.

The University's 2019 revenue from student tuition and fees has decreased to \$18,728,350 from \$20,433,024 in 2018 and \$22,116,470 in 2017 due to decreased enrollment over these years. Tuition and fees represent 34.6 percent of the University's total revenue in 2019, 36.2 percent in 2018 and 35.7 percent in 2017. The 20.7 percent decrease in operating grants and contracts revenue to \$3,263,392 in 2019 from \$4,112,850 in 2018 and \$3,854,225 in 2017 is attributable to the maturation of existing operating grants. The University continues initiatives to identify and obtain new grant funding as shown by the 2018 and 2017 increases.

Operating expenses increased \$7,012,784 primarily as a result of the 2018 \$11,986,641 GASB 68 and 75 reduction of pension expense being \$11,147,171 more than the \$839,470 reduction of 2019 pension expense. This \$11,147,171 increase is partially offset by a \$4,134,387 decrease in pension and OPEB expenses resulting in a 14.3 percent increase in total operating expenses in 2019 when compared to 2018 spending levels. The \$4,134,387 pension and OPEB related decrease in operating expenses is mainly a result of a \$1,957,663 decrease in instruction and department research expenses, a decrease of \$659,537 in operation and maintenance of plant expenses and a \$604,230 decrease in auxiliary expenses as a result of continuing austerity efforts across the University.

State appropriations represent 29.0 percent of the University's total revenue in 2019, 28.0 percent in 2018, and 25.5 percent in 2017. These percentages illustrate that tuition and fee revenue is not sufficient to cover operational expenses. The University has considerable dependency upon a predictable and relatively stable level of state appropriation funding.

During 2019, investment income amounted to \$578,900 as compared to \$922,233 during 2018 and \$1,790,009 during 2017. This decrease in investment income is the result of the declining funds available for investment as well as the impact of the University decision to reallocate a larger portion of the investment portfolio to a lower return but more stable fixed income allocation during 2019.

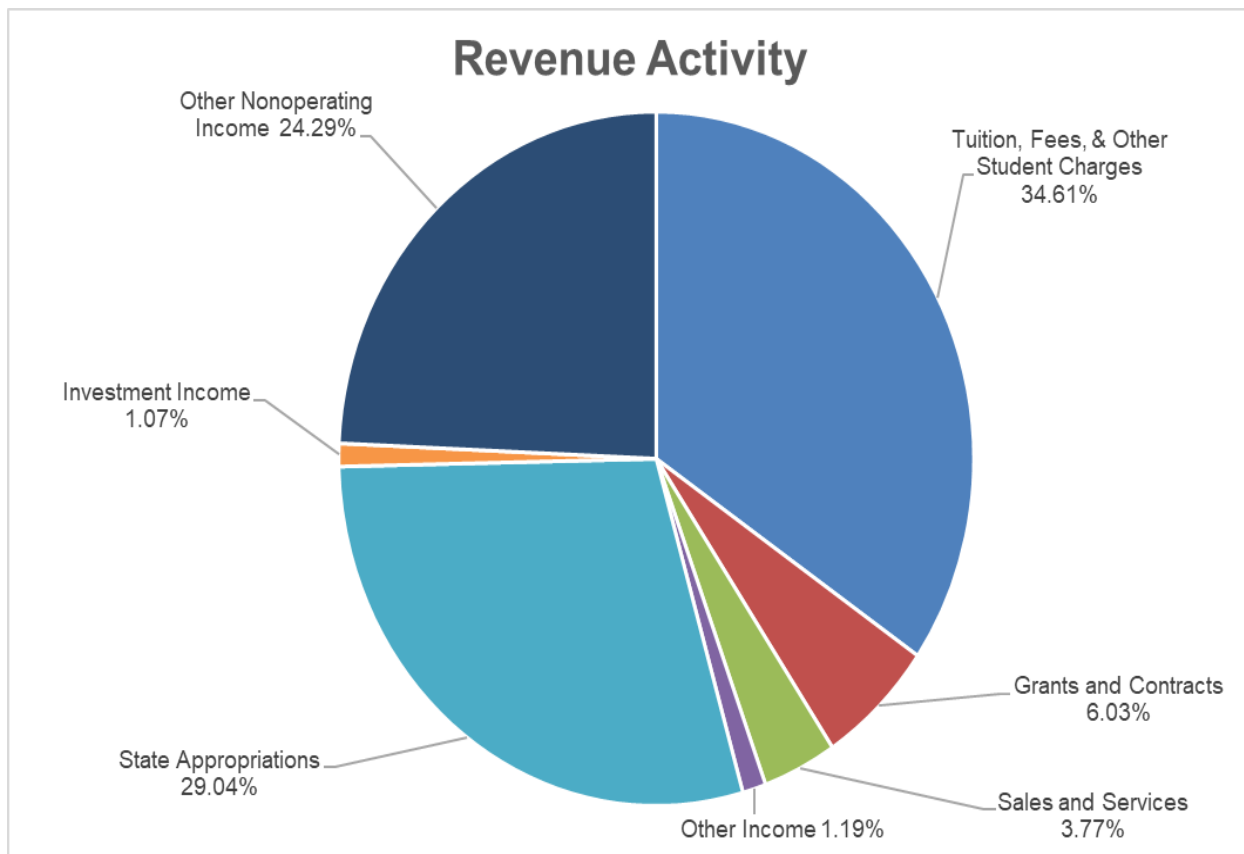
# Shawnee State University

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

Pell Grants and certain other grants are considered nonexchange transactions and are reflected as nonoperating revenue. The federal grants portion of nonoperating other grants revenue experienced a 6.5 percent decrease. The decrease in 2019 follows a similar decrease in 2018 of 2.6 percent in the federal grant portion of nonoperating other grants revenue. Income from federal aid programs such as Pell, SEOG, and Veteran's Benefits amounted to \$7.3 million in 2019 as compared with \$7.8 million in 2018 and \$8.0 million in 2017. Nonoperating grants revenue represents 19.8 percent of the University's total revenue in 2019, down from 19.9 percent in 2018, and 20.3 percent in 2017.

Capital appropriations increased to \$2,448,624 from \$1,268,512 in 2018 as more state capital projects were initiated in 2019. The decrease to \$1,268,512 in 2018 from \$3,463,679 in 2017 reflect the decreased state capital funding received to the close out of various capital projects during those years. These projects include the STEM building projects and major renovations to the Health Science building on campus.

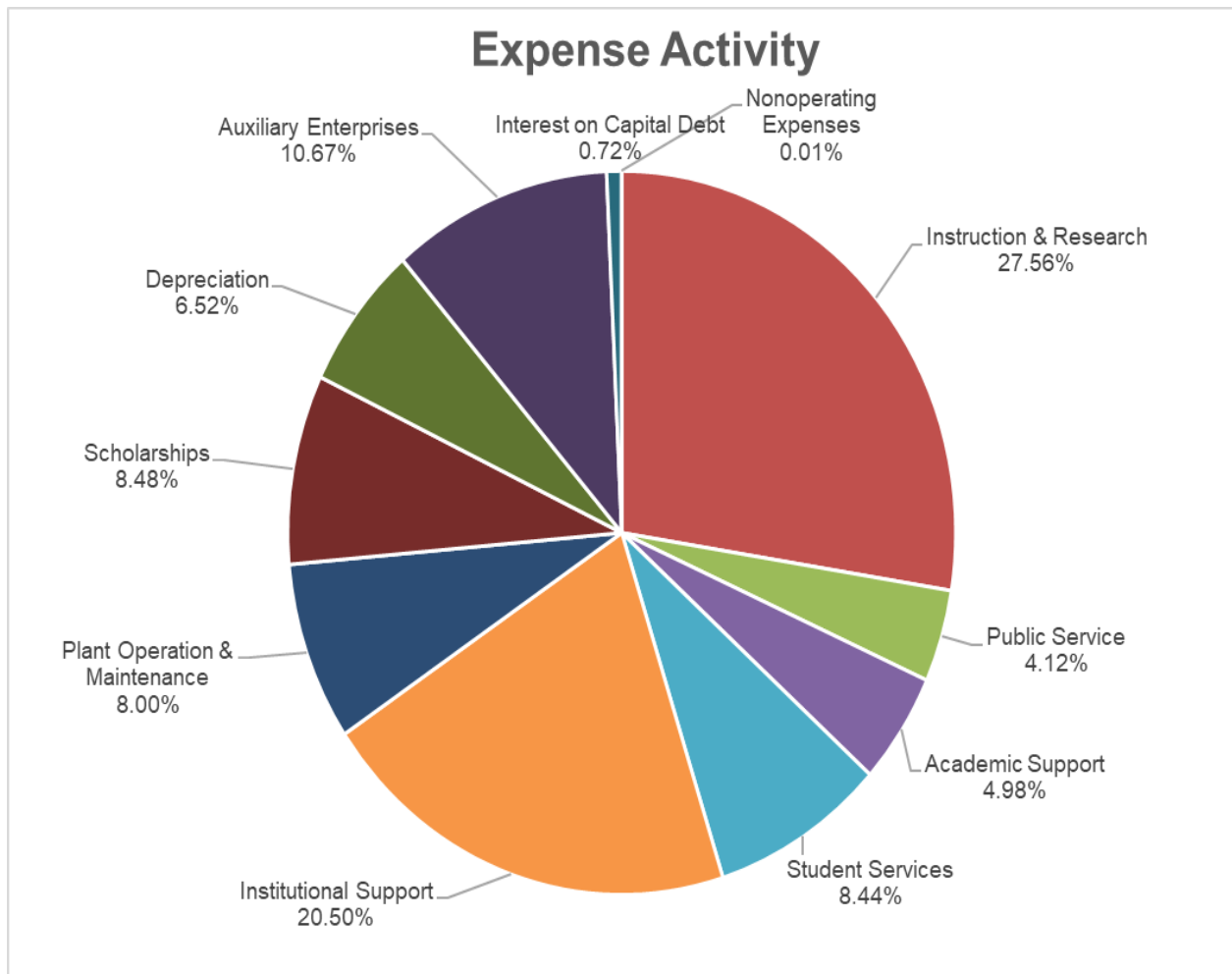
The following graphs illustrate Shawnee State University's revenue and expense activity for the fiscal year ended June 30, 2019.





# Shawnee State University

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



### Statement of Cash Flows

The statement of cash flows provides information about the University's financial condition by reporting the cash sources (receipts) and the cash uses (payments) during the fiscal year ended June 30, 2019. A comparison of cash sources and uses during fiscal years 2019, 2018, and 2017 is presented below:

# Shawnee State University

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

	2019	2018	2017
<b>Cash (Used in) Provided By</b>			
Operating activities	\$ (28,443,714)	\$ (28,221,043)	\$ (28,451,678)
Noncapital financing activities	26,385,499	26,153,453	28,677,400
Capital and related financing activities	(3,756,139)	(3,802,663)	4,938,533
Investment activities	<u>6,603,751</u>	<u>6,622,791</u>	<u>(5,851,901)</u>
Net (decrease) increase in cash and cash equivalents	789,397	752,538	(687,646)
<b>Cash and Cash Equivalents</b>			
Beginning of the year	<u>1,146,758</u>	<u>394,220</u>	<u>1,081,866</u>
End of the year	<u><b>\$ 1,936,155</b></u>	<u><b>\$ 1,146,758</b></u>	<u><b>\$ 394,220</b></u>

Cash and cash equivalents increased by \$789,397 in 2019 as a result of a combination of institution-wide spending-constraint strategies and the liquidation of investment holdings to supplement the University's cash needs during the year.

### **Capital Assets and Debt Administration**

At the end of fiscal year 2019, the University held \$82,339,293 in net capital assets. This reflects an increase of \$875,323 in net capital assets from 2018. The increase was due to the increased number of construction projects initiated or continued during 2019.

Capital assets - Net of depreciation at June 30:

	2019	2018	2017
Land	\$ 8,003,370	\$ 8,003,370	\$ 8,003,370
Land improvements	6,928,632	6,928,632	6,928,632
Buildings and improvements	55,412,017	58,354,853	59,619,149
Equipment	1,803,784	2,412,502	1,974,114
Library books	189,862	232,737	280,551
Construction in progress	<u>10,001,628</u>	<u>5,531,876</u>	<u>4,644,979</u>
Totals	<u><b>\$ 82,339,293</b></u>	<u><b>\$ 81,463,970</b></u>	<u><b>\$ 81,450,795</b></u>

### **Debt Administration**

In fiscal year 2017, the University issued \$20,845,000 of General Receipts Bonds, Bond Series 2016. The net proceeds of the Series 2016 bonds were designated for various purposes. Bond proceeds of about \$7,200,000 were allocated to pay for the costs of various improvements to the University's campus. Those improvements include the renovation and rehabilitation of existing facilities for athletics and student recreation,

# Shawnee State University

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

health and fitness, student housing renovations, and other campus improvements. Secondly, the funds were utilized to advance refund all of the University's outstanding General Receipts Bonds, Series 2007. The Series 2007 Bonds were issued on June 5, 2007 for the purpose of paying the costs to renovate and construct a new addition to its University Center and for refunding of prior bond issues. Lastly, the remaining Series 2016 bond proceeds were used to pay costs of issuance of the bonds.

In fiscal year 2013, the University executed a new capital lease with Key Government Finance, Inc. The original lease proceeds of \$2,820,339 are funding a portion of the University's IT infrastructure upgrade project. In 2015, the University received an additional \$227,407 in funding and revised the original lease's payment schedule to reduce annual payment amounts by extending the lease through October 1, 2018. The University paid the final capital lease payment in 2019.

Outstanding debt at year end:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Capital lease payable - 3.16%	\$ -	\$ 321,617	\$ 633,259
General revenue bonds payable - 2% to 4%	<u>19,575,000</u>	<u>20,220,000</u>	<u>20,845,000</u>
Total debt	<u>\$ 19,575,000</u>	<u>\$ 20,541,617</u>	<u>\$ 21,478,259</u>

### Current Financial Issues and Concerns

As previously described, fiscal year 2019 realized a decrease in net position of more than \$2.44 million from 2018 largely due to a decline in AY18-19 student tuition and fee revenue. The University realized a 9.2% reduction in fall 2018 enrollment from fall 2017; the second consecutive year of significant decline. This posed considerable challenges that warranted a well-measured and prudent set of responses that could be adopted with urgency. With the support of the members of the Board of Trustees and the campus community, necessary actions and initiatives were implemented throughout 2019. As a result, university leaders and the campus community are adjusting to major organizational and operational changes fundamental to fulfilling the mission of the institution. The actions were complex, difficult, essential, and implemented during a time of extreme fiscal constraint.

The primary initiatives implemented include: a general recommitment to the mission of the institution and the delivery of quality programs and services to students, multiple key leadership changes, restructured organization consolidating four divisions to three, formal adoption of a strategic enrollment plan, increased resources through shifting funds and manpower for a stronger recruitment operation armed with aggressive goals linked to the strategic enrollment plan, expanded and professionalized marketing and branding targeted to local and regional markets, engagement with an online management firm for the delivery of select online programs, incentives to faculty to transition certain programs

# Shawnee State University

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

and courses to online, partnerships with community colleges to deliver high-demand programs, warehousing or elimination of outdated or very low-enrollment academic programs while developing and offering new academic programs geared to job and career goals, development of the university's first doctoral program, and more. The commitment to students was further exhibited by modernization of classrooms and laboratories, technology upgrades, and renovations of athletic accommodations for expanding athletic programs and improved student recreation opportunities.

At the same time growth investments were implemented, efforts continued to realize business efficiencies, adopt advanced admissions software tools, and streamline operational processes. Future efforts are pending to modernize student business systems focusing upon processes managed by the Registrar, Bursar, Financial Aid, and the Student Business Center. Quality assessments were undertaken focused upon providing excellent customer service throughout the campus.

Department operating budgets were regularly monitored and spending limited to ensure faculty and staff have sufficient resources to meet essential operational and academic needs that directly impact academic programs and other student services. The positive impact of faculty for the three years' duration of the collectively bargained agreement cannot be overstated. The Shawnee faculty have demonstrated strong leadership and a commitment to a fiscally-sound institution. Compensation costs are controlled through individual evaluation by leadership of each vacated position and hiring decisions are based upon critical academic or service needs, to meet regulatory or other obligatory requirements, or consideration of planned succession.

The strategies expressly focused upon retention efforts are proving to be successful with fall-to-fall retention at 74%. These strategies include but are not limited to: focused advising, specialized software tools for key service areas, a summer bridge program to support students with multiple academic deficiencies, special attention to high school students participating in the state's postsecondary education program, expanded athletic programs to encourage greater engagement, sports venues such as e-gaming that complement the university's academic digital gaming degrees, and in fall 2020, a swim team.

The actual results from the culmination of the above initiatives far exceeded the "hoped-for" expectations with fall 2019 enrollment numbers nearly 12% above fall 2018, and an (unmatched in the four-year public sector) 30.2% increase in first-time freshmen and new transfers; a group critical to future student tuition and fee revenue. In addition, through the efforts of campus and community advocates who recognize the value of the University in the region and the state, the University's state supplement allocation was legislatively increased by 59% (\$1.5 million) to \$4 million each year of the 2020-2021 biennium. This increase illustrates the confidence and support held by legislators and the community for the University's mission.

The dedication and commitment of the Board of Trustees, key administrative and faculty leaders, campus constituencies, city, and community members are essential ingredients critical to the institution. Strong actions and hard work were required to produce the

# Shawnee State University

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

outstanding fall 2019 enrollment outcomes while overcoming many challenges. The University's leadership fully understands that commitment to ongoing strategic and proactive actions are required to sustain this level of performance and to achieve the desired long-term positive enrollment-growth trajectory essential for fiscal stability.

# Shawnee State University

## Statement of Net Position University

	June 30	
	2019	2018
<b>Assets and Deferred Outflows of Resources</b>		
<b>Current Assets</b>		
Cash and cash equivalents	1,936,155	1,146,758
Receivables:		
Accounts - Net of allowance for doubtful accounts of \$2,095,257 in 2019 and \$2,474,856 in 2018	4,241,633	4,809,228
Notes receivable	79,992	80,852
Amounts due from primary government	33,287	480,891
Interest receivable	23,261	28,650
Inventory	24,264	32,211
Prepaid items	306,239	139,087
	<u>6,644,831</u>	<u>6,717,677</u>
Total current assets		
<b>Noncurrent Assets</b>		
Restricted investments	3,594,563	5,521,217
Investments	9,789,573	13,835,674
Capital assets - Net	82,339,293	81,463,970
	<u>95,723,429</u>	<u>100,820,861</u>
Total noncurrent assets		
	<u>102,368,260</u>	<u>107,538,538</u>
Total assets		
<b>Deferred Outflows of Resources</b>		
Pension costs	11,017,389	10,452,614
OPEB costs	871,139	801,049
	<u>11,888,528</u>	<u>11,253,663</u>
Total deferred outflows of resources		
	<u>114,256,788</u>	<u>118,792,201</u>
Total Assets and Deferred Outflows of Resources		

# Shawnee State University

## Statement of Net Position (Continued) University

	June 30	
	2019	2018
<b>Liabilities, Deferred Inflows of Resources, and Net Position</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 1,039,300	\$ 1,993,457
Accrued wages and benefits	3,576,463	3,629,775
Compensated absences payable	191,666	180,693
Capital lease payable	-	321,617
Bonds payable	655,000	645,000
Accrued interest payable	55,781	67,151
Unearned revenue	1,908,844	1,831,218
Deposits held by and due to others	134,069	130,619
	<hr/>	<hr/>
Total current liabilities	7,561,123	8,799,530
<b>Noncurrent Liabilities</b>		
Compensated absences payable	1,724,992	1,626,241
Unearned revenue	550,595	583,541
Net pension liability	40,931,803	36,489,534
Net OPEB liability	7,110,574	11,774,361
Bonds payable	18,920,000	19,575,000
	<hr/>	<hr/>
Total noncurrent liabilities	69,237,964	70,048,677
Total liabilities	76,799,087	78,848,207
<b>Deferred Inflows of Resources</b>		
Service concession agreements	92,528	120,000
Pension costs	4,636,709	6,497,004
OPEB costs	2,955,582	1,078,374
Bond refunding	480,501	512,534
	<hr/>	<hr/>
Total deferred inflows of resources	8,165,320	8,207,912
<b>Net Position</b>		
Net investment in capital assets	66,457,561	66,291,426
Restricted:		
Expendable		
Loans	212,906	112,902
Other	36,339	60,598
Unrestricted	(37,414,425)	(34,728,844)
	<hr/>	<hr/>
Total net position	29,292,381	31,736,082
Total Liabilities, Deferred Inflows of Resources, and Net Position	<b>\$ 114,256,788</b>	<b>\$ 118,792,201</b>

# Shawnee State University

## Statement of Net Assets Development Foundation

	June 30	
	2019	2018
<b>Assets</b>		
Cash and cash equivalents	\$ 833,833	\$ 790,723
Investments	18,743,975	19,030,577
Contributions receivable - Net	330,684	393,842
Lease receivable from related party	22,006	24,175
Grant receivable	196,914	-
Other receivable	36,353	-
Beneficial interest in trusts held by others	796,980	913,594
Cash surrender value of life insurance	277,702	271,287
Other assets	72,590	74,525
Net property and equipment	<u>9,962,366</u>	<u>10,010,618</u>
<b>Total assets</b>	<b><u>\$ 31,273,403</u></b>	<b><u>\$ 31,509,341</u></b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 14,823	\$ 24,906
Accrued real estate tax	15,597	67,860
Grant payable	196,914	-
Other payable	20,000	-
Deposits held and due to others	6,822	205,942
Annuity payment liability	239,263	193,626
Note payable	<u>3,948,916</u>	<u>4,265,792</u>
<b>Total liabilities</b>	4,442,335	4,758,126
<b>Net Assets</b>		
Without donor restrictions	8,052,310	7,942,983
With donor restrictions	<u>18,778,758</u>	<u>18,808,232</u>
<b>Total net assets</b>	<u>26,831,068</u>	<u>26,751,215</u>
<b>Total liabilities and net assets</b>	<b><u>\$ 31,273,403</u></b>	<b><u>\$ 31,509,341</u></b>



# Shawnee State University

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

	Year Ended June 30	
	2019	2018
<b>Operating Revenue</b>		
Student tuition and fees (net of scholarship allowances of \$10,496,856 in 2019 and \$10,671,147 in 2018)	\$ 18,728,350	\$ 20,433,024
Federal grants and contracts	1,867,320	2,087,596
State grants and contracts	656,136	1,342,818
Local grants and contracts	396,733	377,466
Private gifts, grants, and contracts	343,203	304,970
Sales and services	2,038,280	2,207,409
Miscellaneous	645,169	496,926
Total operating revenue	24,675,191	27,250,209
<b>Operating Expenses</b>		
Education and general:		
Instruction and departmental research	15,586,625	8,890,534
Public service	2,331,144	2,060,195
Academic support	2,813,696	2,677,238
Student services	4,775,638	4,286,628
Institutional support	11,594,379	10,916,284
Operation and maintenance of plant	4,525,012	4,793,929
Scholarships and fellowships	4,796,425	5,330,743
Depreciation expense	3,687,479	3,650,888
Auxiliary enterprises	6,034,425	6,525,600
Total operating expenses	56,144,823	49,132,039
<b>Operating Loss</b>	(31,469,632)	(21,881,830)
<b>Nonoperating Revenue (Expenses)</b>		
State appropriations	15,713,910	15,811,797
Federal, state, and local grants and contracts	9,598,061	10,287,480
Private grants and contracts	1,096,159	973,215
Investment income	578,900	922,233
Interest on capital asset-related debt	(409,363)	(437,761)
Loss on disposal of capital assets	(360)	(7,350)
Net nonoperating revenue	26,577,307	27,549,614
<b>Change in Net Position Before Capital Appropriations</b>	(4,892,325)	5,667,784
<b>Other Revenue - Capital appropriations</b>	2,448,624	1,268,512
<b>(Decrease) Increase in Net Position</b>	(2,443,701)	6,936,296
<b>Net Position - Beginning of year</b>	31,736,082	37,524,234
<b>Adjustment for change in Accounting Principle (Note 2)</b>	-	(12,724,448)
<b>Net Position - Beginning of year, as restated</b>	31,736,082	24,799,786
<b>Net Position - End of year</b>	<b>\$ 29,292,381</b>	<b>\$ 31,736,082</b>

# Shawnee State University

## Statement of Activities Development Foundation Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue and Other Support</b>			
Contributions	\$178,218	\$661,202	\$839,420
Investment income - Net	123,365	965,373	1,088,738
Change in value of split-interest agreements	-	(162,251)	(162,251)
Federal grant revenue	-	396,733	396,733
Other income	-	61,340	61,340
Rental income	407,381	-	407,381
Net assets released from restrictions	1,951,871	(1,951,871)	-
	<hr/>	<hr/>	<hr/>
Total revenue and other support	2,660,835	(29,474)	2,631,361
<b>Expenses</b>			
Program services:			
Scholarships and other student aid	658,960	-	658,960
Institutional support	937,583	-	937,583
Total program services	1,596,543	-	1,596,543
Management and general expenses	243,354	-	243,354
Rental activities	518,643	-	518,643
Fundraising	192,968	-	192,968
	<hr/>	<hr/>	<hr/>
Total expenses	2,551,508	-	2,551,508
<b>Change in Net Assets</b>	109,327	(29,474)	79,853
<b>Net Assets - Beginning of year</b>	<hr/> 7,942,983	<hr/> 18,808,232	<hr/> 26,751,215
<b>Net Assets - End of year</b>	<hr/> <b>\$ 8,052,310</b>	<hr/> <b>\$ 18,778,758</b>	<hr/> <b>\$ 26,831,068</b>

# Shawnee State University

## Statement of Activities (Continued) Development Foundation Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue and Other Support</b>			
Contributions	\$104,301	\$1,035,521	\$1,139,822
Investment income - Net	96,953	1,298,288	1,395,241
Change in value of split-interest agreements	(133,551)	5,078	(128,473)
Rental income	418,381	-	418,381
Net assets released from restrictions	<u>1,800,988</u>	<u>(1,800,988)</u>	<u>-</u>
 Total revenue and other support	 2,287,072	 537,899	 2,824,971
<b>Expenses</b>			
Program services:			
Scholarships and other student aid	480,038	-	480,038
Institutional support	<u>525,582</u>	<u>-</u>	<u>525,582</u>
Total program services	1,005,620	-	1,005,620
Management and general expenses	267,087	-	267,087
Rental activities	568,920	-	568,920
Fundraising	<u>170,392</u>	<u>-</u>	<u>170,392</u>
 Total expenses	 <u>2,012,019</u>	 <u>-</u>	 <u>2,012,019</u>
<b>Losses</b>			
Loss on sale of assets	<u>1,627,489</u>	<u>-</u>	<u>1,627,489</u>
 Total expenses and losses	 <u>3,639,508</u>	 <u>-</u>	 <u>3,639,508</u>
 <b>Change in Net Assets</b>	 (1,352,436)	 537,899	 (814,537)
<b>Net Asset Transfer</b>	<u>(776,686)</u>	<u>776,686</u>	<u>-</u>
 <b>Net Assets - Beginning of year</b>	 <u>10,072,105</u>	 <u>17,493,647</u>	 <u>27,565,752</u>
 <b>Net Assets - End of year</b>	 <u>\$ 7,942,983</u>	 <u>\$ 18,808,232</u>	 <u>\$ 26,751,215</u>

# Shawnee State University

## Statement of Cash Flows University

	Year Ended June 30	
	2019	2018
<b>Cash Flows from Operating Activities</b>		
Cash received from tuition, fees, and other student charges	\$ 20,060,967	\$ 20,618,331
Cash received from gifts, grants, and contracts	2,746,727	4,373,900
Cash received from sales and services	2,140,510	2,140,666
Cash received from miscellaneous services	645,169	496,926
Cash payments to suppliers for goods and services	(13,061,112)	(13,696,422)
Cash payments to employees for services	(25,496,423)	(28,863,706)
Cash payments for employee benefits	(10,683,127)	(7,959,995)
Cash payments for scholarships and fellowships	(4,796,425)	(5,330,743)
Net cash used in operating activities	(28,443,714)	(28,221,043)
<b>Cash Flows from Noncapital Financing Activities</b>		
State appropriations	15,713,910	15,811,797
Nonexchange gifts, grants, and contracts	10,955,930	10,689,078
Federal direct student loan program receipts	16,024,838	18,042,932
Federal direct student loan program disbursements	(16,312,869)	(18,384,827)
Net cash from agency transactions	3,690	(5,527)
Net cash provided by noncapital financing activities	26,385,499	26,153,453
<b>Cash Flows from Capital and Related Financing Activities</b>		
Capital appropriations	2,768,972	1,051,006
Payments for capital acquisitions	(4,862,605)	(3,201,982)
Principal payments	(966,617)	(936,642)
Interest payments	(695,889)	(715,045)
Net cash used in capital and related financing activities	(3,756,139)	(3,802,663)
<b>Cash Flows from Investing Activities</b>		
Interest on investments	570,894	919,862
Proceeds for sales and maturities of investments	4,534,836	6,591,736
Proceeds for sales of restricted investments	2,027,522	-
Purchases of securities	(529,501)	(888,807)
Net cash provided by investing activities	6,603,751	6,622,791
<b>Net Change in Cash and Cash Equivalents</b>	789,397	752,538
<b>Cash and Cash Equivalents - Beginning of year</b>	1,146,758	394,220
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 1,936,155</b>	<b>\$ 1,146,758</b>

# Shawnee State University

## Statement of Cash Flows (Continued) University

	Year Ended June 30	
	2019	2018
<b>Reconciliation of Operating Loss to Net Cash from</b>		
<b>Operating Activities</b>		
Operating loss	\$ (31,469,632)	\$ (21,881,830)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation expense	3,687,479	3,650,888
Changes in operating assets and liabilities and deferred outflows of resources and deferred inflows of resources which provided (used) cash:		
Accounts receivable	1,198,786	639,913
Notes receivable	860	646
Prepaid items	(167,152)	184,244
Inventory	7,947	3,825
Accounts payable	(963,625)	889,587
Accrued wages and benefits	(53,311)	225,560
Compensated absences payable	109,724	(68,774)
Unearned revenue	44,680	121,539
Net pension liability	4,442,269	(19,031,393)
Net OPEB liability	(4,663,787)	(994,174)
Deferred outflows of resources - Net pension expense	(564,775)	2,487,031
Deferred outflows of resources - Net OPEB pension expense	(70,090)	(756,962)
Deferred inflows of resources - Net pension expense	(1,860,295)	5,230,483
Deferred inflows of resources - Net OPEB expense	1,877,208	1,078,374
Net cash used in operating activities	<u>\$ (28,443,714)</u>	<u>\$ (28,221,043)</u>

## Note 1 - Reporting Entity

Shawnee State University (the "University") is a state institution of higher education created in 1986 by the Ohio General Assembly under House Bill 739. The University is one of several state-supported universities in the state of Ohio (the "State"). The University is a component unit of the State and is included as a discretely presented component unit in the State's Comprehensive Annual Financial Report. It is declared by statute to be a body politic and corporate and an instrumentality of the State. The University is governed by a nine-member board of trustees, which is granted authority under Ohio law to do all things necessary for the proper maintenance and continual successful operation of the University. The trustees are appointed for staggered nine-year terms by the governor with the advice and consent of the State Senate. In addition, two nonvoting student members are appointed to the board of trustees for staggered two-year terms.

GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, GASB Statement No. 61, *The Financial Reporting Entity*, and GASB Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14 - Omnibus*, provide guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Generally, it requires reporting as a component unit an organization that raises and holds significant economic resources for the direct benefit of a government unit.

Shawnee State University Development Foundation (the "Foundation") is a legally separate, tax-exempt organization supporting the University. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the University in support of its programs. The Foundation's board of trustees is self-perpetuating and consists of graduates and friends of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of the resources the Foundation holds and invests are restricted by the donors to the activities of the University. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. The Foundation's financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles as prescribed by the Financial Accounting Standards Board. A separate financial report for the Foundation is available by contacting The Shawnee State University

## Note 1 - Reporting Entity (Continued)

Development Foundation, 940 Second Street, Portsmouth, Ohio, 45662 or by calling 740-351-3284.

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

## Note 2 - Summary of Significant Accounting Policies

**Basis of Presentation** - In accordance with GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, and subsequent standards issued by the GASB, the University has elected to report as an entity engaged in business-type activities.

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

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

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

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

**Cash and Cash Equivalents** - Cash consists primarily of petty cash, cash in banks, and money market accounts. Cash equivalents are short-term highly liquid investments readily convertible to cash with original maturities of three months or less.

**Accounts Receivable** - Accounts receivable consist of tuition and fee charges to students and auxiliary enterprise services provided to students, staff, the majority of each residing in the state of Ohio. Accounts receivable also include amounts

## Note 2 - Summary of Significant Accounting Policies (Continued)

due from the federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

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

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

**Investments** - Investments, which include investment contracts and money market investments that have a remaining maturity of one year or less at the time of purchase, are reported at fair value. The University has an investment management agreement with TIAA, as permitted by state statute. The agreement allows (within statute limits) investment in both debt and equity instruments. All investments are carried at fair value.

The University has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB) Statement No. 79, *Accounting and Financial Reporting for Certain External Investment Pools and Pool Participants*, which establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price at which the investment could be sold on June 30, 2019 and 2018, respectively.

**Capital Assets** - Capital assets utilized by Shawnee State University are reported on the statement of net position. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. Shawnee State University maintains a capitalization threshold of \$5,000 for movable equipment and \$100,000 for buildings. Building improvement



## Note 2 - Summary of Significant Accounting Policies (Continued)

projects over \$100,000 are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or significantly extend an asset's life are not capitalized.

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

Buildings and improvements	25-50 years
Machinery and equipment	5-20 years
Licensed vehicles	5-10 years
Library books	10 years

Shawnee State University's policy is to capitalize net interest on construction projects until completion of the project. The amount of the capitalized interest is the difference between the interest cost associated with the tax-exempt borrowing used to finance the project and the interest earned from temporary investments of the debt proceeds over the same period. Capitalized interest is amortized on a straight-line basis over the estimated useful life of the asset. The University recorded \$222,268 and \$226,278 of capitalized interest as of June 30, 2019 and 2018, respectively.

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

**Unearned Revenue** - Unearned revenue is predominantly made up of three categories of income. The first consists of receipts relating to tuition and student fees in advance of the services to be provided. The University will recognize revenue to the extent these services are provided over the coming fiscal year. The second is revenue received from the University bookstore vendor. These funds are designated for improvements to the bookstore as part of the Morris University Center renovation project. The funding is dependent on retaining the contract with this vendor. The straight-line method will be used to amortize the

## Note 2 - Summary of Significant Accounting Policies (Continued)

revenue over the remaining life of the contract. The remaining source of unearned revenue consists of grant funding received from the grantor prior to occurrence of allowable grant expenses. Revenue will be recognized as expenses are incurred.

**Pensions** – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense. Information about the fiduciary net position of the Ohio Public Employees Retirement System (OPERS) and State Teachers Retirement System of Ohio Pension Plan (STRS) and additions to/deductions from STRS' and OPERS' fiduciary net position have been determined on the same basis as they are reported by STRS and OPERS. STRS and OPERS uses the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expense when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Other Postemployment Benefit Costs** - For purposes of measuring the net other postemployment benefit (OPEB) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Ohio Public Employees Retirement System (OPERS) and State Teachers Retirement System of Ohio (STRS) Pension Plan and additions to/deductions from STRS'/OPERS' fiduciary net position have been determined on the same basis as they are reported by STRS/OPERS. STRS/OPERS uses the economic resources measurement focus and the full accrual basis of accounting. For this purpose, STRS/OPERS recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

**Deferred Inflows of Resources** - In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This

## Note 2 - Summary of Significant Accounting Policies (Continued)

separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The government reports deferred inflows of resources for certain pension-related and OPEB-related amounts, such as the difference between projected and actual earnings of the plan's investments. More detailed information can be found in Note 13.

**Net Position** - GASB Statement No. 35 establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net position categories:

- **Net Investment in Capital Assets** - Capital assets, net of accumulated depreciation, reduced by the outstanding balances of debt and deferred inflows of resources related to the acquisition, construction, or improvement of those assets.
- **Restricted** - Owned by the University, but the use or purpose of the funds is restricted by an external source or entity. The restricted net position category is subdivided further into expendable and nonexpendable.
  - **Restricted Expendable** - May be spent by the institution, but only for the purpose specified by the donor, or other external entity. This category includes the unspent balance in loan funds, debt service funds, and bond-funded capital projects.
  - **Restricted Nonexpendable** - Endowment funds whose principal may be invested; however, only interest, dividends, and capital gains may be spent.
- **Unrestricted** - Resources whose use by the University is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the board of trustees or may otherwise be limited by contractual agreements with outside parties.

**Income Taxes** - The University is an organization described in Section 115 of the Internal Revenue Code (the "Code") and has further been classified as an organization that is not a private foundation in accordance with Sections 509(a)(1) and 170(b)(1)(A)(ii) of the Code. However, certain revenue is considered unrelated business income and may be taxable under Code Sections 511 through 513.

**Self-Insurance** - The University is self-insured for certain employee health benefit programs. Funding for these programs is based on actuarial projections provided

## Note 2 - Summary of Significant Accounting Policies (Continued)

by the plan administrators. Aggregate stop-loss insurance is maintained for benefit payments that exceed the maximum limits outlined in the policy. A liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, is recorded.

**Classification of Revenue** - Revenue is classified as either operating or nonoperating.

- Operating revenue includes revenue from activities that have characteristics similar to exchange transactions. These include student tuition and fees (net of scholarship discounts and allowances), sales and services of auxiliary enterprises (net of scholarship discounts and allowances), and certain federal, state, local and private grants, and contracts. The presumption is that there is a fair exchange of value between all parties to the transaction.
- Nonoperating revenue includes revenue from activities that have the characteristics of nonexchange transactions, such as state appropriations and certain federal, state, local, and private gifts, and grants. The implication is that such revenue is derived from more passive efforts related to the acquisition of the revenue, rather than the earning of it.

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

**Service Concession Arrangements** - The University entered into an agreement in 2019 with a new food service provider, which is a service concession arrangement. As part of the arrangement, the service provider is funding dining hall renovations on the University's behalf over the 10-year period of the contract, contingent upon the University utilizing the services of the food service provider for the period. As amounts are funded, they are recorded as deferred inflows and amortized over the remaining life of the contract. The University fulfilled the prior service concession agreement in 2019. Under GASB Statement No. 60,

## Note 2 - Summary of Significant Accounting Policies (Continued)

*Accounting and Financial Reporting for Service Concession Arrangements*, service concession arrangements are to be reported as deferred inflows/outflows of resources. The University recorded deferred inflows of resources of \$92,528 and \$120,000 at June 30, 2019 and 2018, respectively.

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

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

**Upcoming Accounting Pronouncements** - As of June 30, 2019, the GASB has issued the following statements not yet implemented by the University:

- **Accounting for Fiduciary Activities** - In January 2017, the Governmental Accounting Standards Board issued GASB Statement No. 84, *Fiduciary Activities*, which establishes criteria for identifying fiduciary activities of governments and improves guidance for accounting and financial reporting related to how these activities should be reported. The University is currently evaluating the impact of this standard, specifically related to holding assets for other organizations. The provisions of this statement are effective for the University's financial statements for the year ending June 30, 2020.
- **Accounting for Leases** - In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, *Leases*, which increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This statement establishes a single model for lease accounting based on the foundational principle that leases are financings

## Note 2 - Summary of Significant Accounting Policies (Continued)

of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The new lease standard is not expected to have a significant effect on the University's financial statements. The provisions of this statement are effective for the University's financial statements for the year ending June 30, 2021.

- **Accounting for Interest Cost Incurred Before the End of a Construction Period** – In June 2018, the Governmental Accounting Standards Board issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which simplifies accounting for interest cost incurred before the end of construction and requires those costs to be expensed in the period incurred. As a result, interest cost incurred before the end of a construction period will not be capitalized and included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of the standard will be applied prospectively and result in increased interest expense during periods of construction. The provisions of this statement are effective for the University's financial statements for the year ended June 30, 2021.

## Note 3 - Deposits and Investments

**Deposits** - At June 30, 2019, the carrying amount of the University's deposits (which consist of cash, excluding cash on hand of \$2,827, deposits held by trustee, and investments) was \$1,933,328 and the bank balance was \$824,327. The difference in the carrying amount and bank balance primarily results from outstanding checks. Of the bank balance, \$250,000 is covered by the Federal Deposit Insurance Corporation. At June 30, 2018, the carrying amount of the University's deposits, (which consist of cash, excluding cash on hand of \$3,278, deposits held by trustee, and investments) was \$1,143,480 and the bank balance was \$1,491,486.

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

As of June 30, 2019, the University had the following investments and maturities using the segmented time distribution method:

# Shawnee State University

## Notes to Financial Statements June 30, 2019 and 2018

### Note 3 - Deposits and Investments (Continued)

Investment Type	Value	Investment Maturities (in years)		
		<1	1-5	More than 5
U.S. gov. and agency bonds	\$ 1,561,515	\$ 296,503	\$ 588,939	\$ 676,073
Corporate bonds and notes	1,566,401	183,461	715,891	667,049
Fixed-income mutual funds	1,528,691	1,528,691	-	-
Money market funds	5,981,325	5,981,325	-	-
STAR Ohio funds	191,776	191,776	-	-
Total	10,829,708	<u>\$ 8,181,756</u>	<u>\$ 1,304,830</u>	<u>\$ 1,343,122</u>
Equities and equity funds	<u>2,554,428</u>			
Total	<u>\$ 13,384,136</u>			

As of June 30, 2018, the University had the following investments and maturities using the segmented time distribution method:

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

Restricted investments at June 30, 2019 and 2018 are shown in the statement of net position as noncurrent assets in the amount of \$3,594,563 and \$5,521,217, respectively. Investments at June 30, 2019 and 2018 are shown in the statement of net position as noncurrent assets in the amount of \$9,789,573 and \$13,835,674, respectively.

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

### Note 3 - Deposits and Investments (Continued)

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

As of June 30, 2019 and 2018, the University had the following investments and quality ratings:

Investment Type	Rating	2019 Fair Value	2018 Fair Value
U.S. govt. and agency bonds	AAA	\$ 56,607	\$ 47,770
	AA+	1,504,908	1,571,990
Corporate bonds and notes	AAA	349,779	-
	AA	156,683	310,280
	A	594,056	540,041
	BBB	465,883	544,739
Fixed-income mutual funds	AAA	1,528,691	1,546,969
Money market funds	AAA	3,594,563	5,561,388
	AA+	2,386,762	3,201,454
STAR Ohio funds	AAA	191,776	187,305
		\$ 10,829,708	\$ 13,511,936

**Concentration of Credit Risk** - Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The University's investment policy limits investment in any single issue other than U.S. government securities to 5.0 percent of the total investment portfolio.



### Note 4 - Fair Value Measurements

The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

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

The University has the following assets with recurring fair value measurements as of June 30, 2019 and 2018:

#### Assets Measured at Fair Value on a Recurring Basis

	Balance at June 30, 2019	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by Fair Value Level</b>				
Debt securities:				
U.S. gov. and agency bonds	\$ 1,561,515	\$ 1,561,515	\$ -	\$ -
Corporate bonds and notes	1,566,401	-	1,566,401	-
Total debt securities	3,127,916	1,561,515	1,566,401	-
Mutual funds:				
Fixed-income mutual funds	1,528,691	1,528,691	-	-
Equity mutual funds	2,554,428	2,554,428	-	-
Money market mutual funds	5,981,325	5,981,325	-	-
Total mutual funds	10,064,444	10,064,444	-	-
Total investments by fair value level	\$ 13,192,360	\$ 11,625,959	\$ 1,566,401	\$ -

### Note 4 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis			
	Balance at June 30, 2018	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by Fair Value Level</b>				
Debt securities:				
U.S. govt. and agency bonds	\$ 1,619,760	\$ 1,353,284	\$ 266,476	\$ -
Corporate bonds and notes	1,395,060	-	1,395,060	-
Total debt securities	3,014,820	1,353,284	1,661,536	-
Mutual funds:				
Fixed-income mutual funds	1,546,969	1,546,969	-	-
Equity mutual funds	5,844,955	5,844,955	-	-
Money market mutual funds	8,762,842	8,762,842	-	-
Total mutual funds	16,154,766	16,154,766	-	-
Total investments by fair value level	\$ 19,169,586	\$ 17,508,050	\$ 1,661,536	\$ -

Short-term investment and investments on the statement of net position at June 30, 2019 and 2018 include investments in STAR Ohio of \$191,776 and \$187,305, respectively. The investments in STAR Ohio are measured at amortized cost; therefore, they are not included in the tables above. There are no limitations or restrictions on any STAR Ohio participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given to STAR Ohio 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the STAR Ohio investors will be combined for these purposes.

### Note 5 - Accounts Receivable

The composition of accounts receivable at June 30, 2019 and 2018 is summarized as follows:

	2019	2018
Student tuition and fees	\$ 4,502,538	\$ 5,346,081
Grants and contracts	1,821,342	1,561,024
Other	13,010	376,979
 Total accounts receivable	 6,336,890	 7,284,084
 Less allowance for doubtful accounts	 (2,095,257)	 (2,474,856)
 Accounts receivable - Net	 \$ 4,241,633	 \$ 4,809,228

### Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2019 was as follows:

	Balance July 1, 2018	Reclass and Additions	Reductions	Balance June 30, 2019
Capital assets not being depreciated:				
Land	\$ 8,003,370	\$ -	\$ -	\$ 8,003,370
Land improvements	6,928,632	-	-	6,928,632
Construction in progress	<u>5,531,876</u>	<u>4,823,384</u>	<u>(353,632)</u>	<u>10,001,628</u>
Total capital assets not being depreciated	20,463,878	4,823,384	(353,632)	24,933,630
Capital assets being depreciated:				
Buildings and improvements	107,691,458	-	-	107,691,458
Equipment	15,430,818	86,393	(152,190)	15,365,021
Library books	<u>4,035,489</u>	<u>7,017</u>	<u>(57,768)</u>	<u>3,984,738</u>
Total capital assets being depreciated	127,157,765	93,410	(209,958)	127,041,217
Less accumulated depreciation:				
Buildings and improvements	(49,336,605)	(2,942,836)	-	(52,279,441)
Equipment	(13,018,316)	(694,751)	151,830	(13,561,237)
Library books	<u>(3,802,752)</u>	<u>(49,892)</u>	<u>57,768</u>	<u>(3,794,876)</u>
Total accumulated depreciation	<u>(66,157,673)</u>	<u>(3,687,479)</u>	<u>209,598</u>	<u>(69,635,554)</u>
Total capital assets being depreciated - Net	<u>61,000,092</u>	<u>(3,594,069)</u>	<u>(360)</u>	<u>57,405,663</u>
Capital assets - Net	<u>\$ 81,463,970</u>	<u>\$ 1,229,315</u>	<u>\$ (353,992)</u>	<u>\$ 82,339,293</u>

### Note 6 - Capital Assets (Continued)

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

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

As of June 30, 2019, the total of outstanding commitments for capital projects was \$3,166,002. This amount consists of \$375,754 for Capital Projects funded by the State of Ohio and \$2,790,248 for Capital Projects funded by the University and Bond Series 2016 funds.

### Note 7 - Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and state laws. Classified employees and administrators earn 10-25 days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Vacation time may be accumulated up to a maximum of twice the employee's current accrual rate. Faculty does not accrue vacation time.

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

### Note 8 - Long-term Obligations

The changes in the University's long-term obligations during fiscal year 2019 were as follows:

	Principal Outstanding			Principal Outstanding	
	July 1, 2018	Additions	Deductions	June 30, 2019	Current Portion
General Receipt Bonds, Series 2016	\$ 20,220,000	\$ -	\$ 645,000	\$ 19,575,000	\$ 655,000
Unamortized bond premium	608,171	-	24,631	583,540	32,945
Capital lease	321,617	-	321,617	-	-
Compensated absences	1,806,934	250,071	140,347	1,916,658	191,666
<b>Total long-term liabilities</b>	<b>\$ 22,956,722</b>	<b>\$ 250,071</b>	<b>\$ 1,131,595</b>	<b>\$ 22,075,198</b>	<b>\$ 879,611</b>

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

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

## Note 8 - Long-term Obligations (Continued)

In fiscal year 2017, the University issued \$20,845,000 of General Receipts Bonds, Series 2016, dated November 29, 2016, maturing at various dates through June 1, 2041 at coupon rates ranging from 2.0 percent to 4.0 percent. The net proceeds of the Series 2016 Bonds will be used to first pay for the costs of various improvements to the University's campus. Those improvements include the renovation and rehabilitation of existing facilities for athletics and student recreation, health and fitness, student housing renovations, and other campus improvements (collectively, the "Project"). Secondly, the funds will be utilized to advance refund all of the University's outstanding General Receipts Bonds, Series 2007, dated June 5, 2007 (the "Series 2007 Bonds") and finally to pay costs of issuance of the Series 2016 Bonds.

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

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

In fiscal year 2013, the University entered into a capital lease agreement to fund an IT infrastructure upgrade project. The agreement totaled \$2,820,339 with various payment dates through October 1, 2016. In fiscal year 2015, the University added \$227,407 in net additional capital lease funding and revised the payment schedule to reduce annual payment amounts by extending payment dates through October 1, 2018. As of June 30, 2016, assets totaling \$3,047,632 were purchased utilizing these funds. The assets purchased are included within buildings.

The interest expense for fiscal years 2019 and 2018 was \$409,363 and \$437,761, respectively.

## Note 8 - Long-term Obligations (Continued)

Principal and interest amounts due within each of the next five years and thereafter on the Series 2016 bond obligations outstanding at June 30, 2019 are as follows:

Years Ending June 30	Principal	Interest	Total
2020	\$ 655,000	\$ 669,375	\$ 1,324,375
2021	915,000	649,725	1,564,725
2022	945,000	622,275	1,567,275
2023	970,000	593,925	1,563,925
2024	1,000,000	564,825	1,564,825
2025-2029	5,445,000	2,369,925	7,814,925
2030-2034	6,635,000	1,208,150	7,843,150
2035-2039	2,075,000	386,750	2,461,750
2040-2041	<u>935,000</u>	<u>49,350</u>	<u>984,350</u>
Total	<u>\$ 19,575,000</u>	<u>\$ 7,114,300</u>	<u>\$ 26,689,300</u>

The final capital lease principal payment of \$321,617 and interest payment of \$10,294 were paid in October 2018.

## Note 9 - Leases

The University's operating leases consist of real property and movable equipment that expire in fiscal year 2029. Total expenditures during 2019 and 2018 under operating leases amounted to approximately \$88,000 and \$85,000, respectively.

## Note 10 - Contingencies

The University receives financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the unrestricted or restricted educational and general funds or other applicable funds. However, in the opinion of management, any such disallowed claims would not have a significant adverse effect on the overall financial statements of the University at June 30, 2019.



## Note 10 - Contingencies (Continued)

During the normal course of operations, the University has become a defendant in various legal and administrative actions. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. However, in the opinion of university management, the disposition of all pending litigations would not have a significant adverse effect on the University's financial position.

## Note 11 - State Support

The University is a state-assisted institution of higher education, which receives a student-performance-based subsidy from the State of Ohio. This subsidy is determined annually based upon a formula managed by the Ohio Department of Higher Education, adjusted to state resources available. The University also receives a supplemental appropriation to support the goals of improving course completion, increasing the number of degrees conferred, and furthering the University's mission of service to the Appalachian region.

In addition to the performance-based subsidy and supplement, the State of Ohio provides funding for the construction of major plant facilities on the University's campus. State funding for the construction of university facilities is obtained from the issuance of revenue bonds by the Ohio Public Facilities Commission, which in turn initiates the construction and subsequent lease of the facility by the Ohio Department of Higher Education. Upon completion of a facility, the Ohio Department of Higher Education turns over control to the University. The University capitalizes the costs of these facilities as construction is completed and payment is received from the Ohio Public Facilities Commission.

Neither the obligation for the revenue bonds issued by the Ohio Public Facilities Commission nor the annual debt service charges for principal and interest on the bonds are reflected in the University's financial statements. These are funded through appropriations to the Ohio Department of Higher Education by the Ohio General Assembly.

The University facilities are not pledged as collateral for the revenue bonds. Instead, the bonds are supported by a pledge of monies in the Higher Education Capital Facilities Bond Service Fund, and future payments to be received by such fund, which is established in the custody of the Treasurer of State.

As a result of the above-described financial assistance provided by the State of Ohio to the University, outstanding debt issued by the Ohio Public Facilities Commission is not included on the University's statement of net position. In addition, appropriations by the General Assembly to the Ohio Department of Higher Education for payment of debt

## Note 11 - State Support (Continued)

service charges are not reflected as appropriation revenue received by the University, and the related debt service payments are not recorded in the University's accounts.

The University also receives direct appropriations from the State to fund capital improvements. These appropriations are reflected as appropriation revenue on the University's financial statements. The costs, both direct and indirect, are subject to examination and advance approval by the State of Ohio.

## Note 12 - Grants and Contracts

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

## Note 13 - Retirement Plans

**Plan Description** – The University participates in the State Teachers Retirement System (STRS), the School Employees Retirement System (SERS), and the law enforcement division of the Ohio Public Employees Retirement System (OPERS), statewide, cost-sharing, multiple-employer defined benefit public employee retirement systems governed by the Ohio Revised Code (ORC) that covers substantially all employees of the University. Each system has multiple retirement plan options available to its members, with three options in STRS and OPERS. Each system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The systems also each provide post-employment health care benefits (including Medicare B premiums) to retirees and beneficiaries who elect to receive those benefits.

### Note 13 – Retirement Plans (Continued)

Each retirement system issues a publicly available financial report that includes financial statements and required supplementary information for the pension and post-employment health care plans. The reports may be obtained by contacting:

State Teachers Retirement System of Ohio  
275 E. Broad Street  
Columbus, Ohio 43215  
(888) 227-7877  
[www.strsoh.org](http://www.strsoh.org)

Ohio Public Employees Retirement System  
277 E. Town Street  
Columbus, Ohio 43215  
(800) 222-7377  
[www.opers.org](http://www.opers.org)

**Contributions** – State retirement law requires contributions by covered employees and their employers, and Chapter 3307 of the Ohio Revised Code (ORC) limits the maximum rate of contributions. The retirement boards of the systems individually set contributions rates within the allowable limits. The adequacy of employer contribution rates is determined annually by actuarial valuation using the entry age normal cost method. Under these provisions, each University’s contribution is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance a portion of the unfunded accrued liability.

Member contributions are set at the maximums authorized by the ORC. The plans’ 2019 employer and member contribution rates on covered payroll to each system are:

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

The plans’ 2018 employer and member contribution rates on covered payroll to each system are:

### Note 13 – Retirement Plans (Continued)

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

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

	For the years ended June 30	
	2019	2018
	STRS	\$ 1,504,712
OPERS	1,479,444	1,446,732
Total	\$ 2,984,156	\$ 3,037,132

### Benefits Provided –

STRS – Plan benefits are established under Chapter 3307 of the ORC, as amended by Substitute Senate Bill 342 in 2012, gives the Retirement Board the authority to make future adjustments to the member contribution rate, retirement age and service requirements, and the COLA as the need or opportunity arises, depending on the retirement system's funding progress.

Any member may retire who has (1) five years of service credit and attained age 60; (2) 25 years of service credit and attained age 55; or (3) 30 years of service credit regardless of age. Beginning August 1, 2015, eligibility requirements for an unreduced benefit changed. The maximum annual retirement allowance, payable for life, considers years of credited service, final average salary (3-5 years) and multiplying by a factor ranging from 2.2 percent to 2.6 percent with 0.1 percent incremental increases for years greater than 30-31, depending on retirement age.

A defined benefit plan or combined plan member with five or more years of credited service who is determined to be disabled (illness or injury preventing individual's ability to perform regular job duties for at least 12 months) may receive a disability benefit. Additionally, eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least 10 years of qualifying service credit to apply for disability benefits.

## Note 13 – Retirement Plans (Continued)

A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the plan. Death benefit coverage up to \$2,000 can be purchased by participants in all three of the plans. Various other benefits are available to members' beneficiaries.

STRS Ohio provides access to healthcare coverage to retirees who participated in the Defined Benefit or Combined Plans, and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the ORC, the State Teachers Retirement Board (the "Board") has discretionary authority over how much, if any, of the healthcare costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the healthcare cost in the form of a monthly premium.

OPERS – Plan benefits are established under Chapter 145 of the ORC, as amended by Substitute Senate Bill 343 in 2012. The requirements to retire depends on years of service (5 to 30 years) and from attaining the age of 48 to 62, depending on when the employee became a member. Members retiring before age 65 with less than 30 years' service credit receive a percentage reduction in benefit, except for public safety and law enforcement participants. Member retirement benefits are calculated on a formula that considers years of service (5-30 years), age (48-62 years) and final average salary, using a factor ranging from 1.0 percent to 2.5 percent.

A plan member who becomes disabled before age 60 or at any age, depending on when the member entered the plan, and has completed 60 contributing months is eligible for a disability benefit.

A death benefit of \$500 - \$2,500 is determined by the number of years of service credit of the retiree. Benefits may transfer to a beneficiary upon death with 1.5 years of service credits with the plan obtained within the last 2.5 years, except for law enforcement and public safety personnel who are eligible immediately upon employment.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustment, if applicable, is an amount based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

**Net Pension Liability, Deferrals, and Pension Expense** – At June 30, 2019 and 2018, the University reported a liability for its proportionate share of the net pension liability of STRS/OPERS. For June 30, 2019, the net pension liability was measured as of June 30, 2018 for STRS, and December 31, 2018 for the OPERS plan. For June 30, 2018, the net pension liability was measured as of June 30,

## Note 13 – Retirement Plans (Continued)

2017 for STRS, and December 31, 2017 for the OPERS plan. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates, except STRS' net pension liability's actuarial valuation was dated July 1, 2018 and 2017, respectively, which was rolled forward to the measurement date. The University's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined.

Plan	Measurement Date	Net Pension Liability		Proportionate Share		Percent Change
		2019	2018	2019	2018	
STRS	July 1	\$ 21,971,679	\$ 25,109,186	0.09993%	0.10570%	-5.46%
OPERS	December 31	18,960,124	11,380,348	0.06938%	0.07287%	-4.80%
Total		<u>\$ 40,931,803</u>	<u>\$ 36,489,534</u>			

For the years ended June 30, 2019 and 2018, the University recognized pension expense of \$2,017,199 and \$(11,313,879), respectively. At June 30, 2019 the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

### Note 13 – Retirement Plans (Continued)

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 510,991	\$ 409,138
Changes of assumptions	5,556,886	-
Net difference between projected and actual earnings on pension plan investments	2,587,646	\$ 1,332,338
Changes in proportion and differences between university contributions and proportionate share of contributions	255,242	\$ 2,895,235
University contributions subsequent to the measurement date	<u>2,106,624</u>	<u>-</u>
Total	<u>\$ 11,017,389</u>	<u>\$ 4,636,709</u>

At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 983,780	\$ 442,677
Changes of assumptions	6,862,419	-
Net difference between projected and actual earnings on pension plan investments	-	3,291,257
Changes in proportion and differences between university contributions and proportionate share of contributions	379,077	2,763,070
University contributions subsequent to the measurement date	<u>2,227,338</u>	<u>-</u>
Total	<u>\$ 10,452,614</u>	<u>\$ 6,497,004</u>

## Note 13 – Retirement Plans (Continued)

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

Year Ending June 30	Amount
2020	\$ 2,347,766
2021	1,426,145
2022	(204,515)
2023	703,097
2024	76
Thereafter	1,485

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

**Net OPEB Liability/(Asset), Deferrals, and OPEB Expense** – At June 30, 2019, the University reported a liability for its proportionate share of the net OPEB liability/(asset) of STRS/OPERS. For June 30, 2019, the net OPEB liability/(asset) was measured as of June 30, 2018 for STRS, and December 31, 2018 for the OPERS plan. For June 30, 2018, the net OPEB liability/(asset) was measured as of June 30, 2017 for STRS, and December 31, 2017 for the OPERS plan. The total OPEB liability used to calculate the net OPEB liability/(asset) was determined by an actuarial valuation as of those dates, except OPERS which used an actuarial valuation dated December 31, 2017 and 2016, respectively, rolled forward to the measurement date by incorporating the expected value of health care cost accruals, the actual health care payments, and interest accruals during the year for the defined benefit health care plans.

Typically, the University’s proportion of the net OPEB liability/(asset) would be based on a projection of its long-term share of contributions to the OPEB plan relative to the projected contributions of all participating reporting units, actuarially determined, except as noted below.

For plan years ending June 30, 2018 and 2017, STRS did not allocate employer contributions to the OPEB plan. Therefore, STRS’ calculation of the employers’ proportionate share is based on total contributions to the plan for both pension and OPEB.

For plan years ending December 31, 2018 and 2017, OPERS allocated 0.0% and 1% of the total 14% employer contributions to the OPEB plan. Therefore,



### Note 13 – Retirement Plans (Continued)

OPERS's calculation of the employers' proportionate share is based on total contributions to the plan for both pension and OPEB.

Plan	Measurement Date	Net OPEB Liability/(Asset)		Proportionate Share	
		2019	2018	2019	2018
STRS	June 30	\$ (1,606,000)	\$ 4,124,011	0.09993%	0.10570%
OPERS	December 31	8,716,574	7,650,350	0.06686%	0.07287%
Total		<u>\$ 7,110,574</u>	<u>\$ 11,774,361</u>		

Each plan above used the same proportionate share to allocate the net OPEB liability for recording the beginning balance at July 1, 2018, therefore, there was no change in proportionate share from July 1, 2017 to June 30, 2018.

For the years ended June 30, 2019 and 2018, the University recognized OPEB expense of \$(2,856,669) and \$(672,762), respectively. At June 30, 2019, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 190,503	\$ 117,206
Changes of assumptions	281,033	2,188,000
Net difference between projected and actual earnings on pension plan investments	399,603	183,000
Changes in proportion and differences between university contributions and proportionate share of contributions	-	467,376
University contributions subsequent to the measurement date	-	-
Total	<u>\$ 871,139</u>	<u>\$ 2,955,582</u>

### Note 13 – Retirement Plans (Continued)

At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 244,022	\$ -
Changes of assumptions	557,027	332,203
Net difference between projected and actual earnings on pension plan investments	-	746,171
Changes in proportion and differences between university contributions and proportionate share of contributions	-	-
University contributions subsequent to the measurement date	-	-
 Total	 <u>\$ 801,049</u>	 <u>\$ 1,078,374</u>

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

Year Ending June 30	Amount
2020	\$ (258,463)
2021	(490,502)
2022	(380,133)
2023	(199,055)
2024	(385,746)
Thereafter	(370,544)

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

**Actuarial Assumptions** – The total pension liability and OPEB liability is based on the results of an actuarial valuation and were determined using the following actuarial assumptions for the University’s current year:

### Note 13 – Retirement Plans (Continued)

	STRS	OPERS
Valuation date - Pension	July 1, 2018	December 31, 2018
Valuation date - OPEB	June 30, 2018	December 31, 2017
Actuarial cost method	Entry age normal	Individual entry age
Cost of living	None	2.15 percent - 3.00 percent
Salary increases, including inflation	2.5 percent - 12.5 percent	3.25 percent -10.75 percent
Inflation	2.5 percent	2.50 percent
Investment rate of return - Pension	7.45 percent, net of investment expense	7.20 percent, net of investment expense, including inflation
Investment rate of return - OPEB	7.45 percent, net of investment expense, including inflation	6.00 percent, net of investment expense, including inflation
Health care cost trend rates	-5.23 percent to 9.62 percent initial, 4 percent ultimate	10.0 percent initial, 3.25 percent ultimate in 2029
Experience study date	Period of 5 years ended June 30, 2016	Period of 5 years ended December 31, 2015
Mortality basis	RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016	RP-2014 Healthy Annuitant Mortality Table

### Note 13 – Retirement Plans (Continued)

The following are actuarial assumptions for the University's prior year:

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

**Pension Discount Rate** The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates for all plans. Based on those assumptions, each pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rates used to measure the total pension liabilities for STRS were 7.45 percent for the plan years ended June 30, 2018 and 2017. The discount rates

## Note 13 – Retirement Plans (Continued)

used to measure the total pension liability for OPERS were 7.20 percent and 7.50 percent for the plan years ended December 31, 2018 and 2017, respectively.

**OPEB Discount Rate** –The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates for all plans. Plans that project fiduciary net position to be insufficient to make all projected future benefit payments for current active and inactive employees used a blended discount rate between the long-term expected rate of return on plan investments and a 20-year municipal bond rate applied to all periods of projected benefit payments to determine the total OPEB liability/(asset).

*STRS – OPEB Discount Rate:* The discount rate used to measure the total OPEB liabilities were 7.45 percent and 4.13 percent for the plan years ended June 30, 2018 and 2017, respectively. At June 30, 2018, the plan's fiduciary net position was projected to be available to make all projected future benefit payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. At June 30, 2017, the plan's fiduciary net position was projected to become insufficient to make all projected future benefit payments for current active and inactive employees. Therefore, a blended rate was used, which consisted of the long-term expected rate of return on OPEB plan investments for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent. At June 30, 2017, the long-term expected rate of return on health care investments was applied to projected costs through the year 2037, and the municipal bond rate was applied to all health care costs after that date.

*OPERS – OPEB Discount Rate:* The discount rate used to measure the total OPEB liabilities were 3.96 percent and 3.85 percent for the plan years ended December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, the plan's fiduciary net position was projected to become insufficient to make all projected future benefit payments for current active and inactive employees. Therefore, a blended rate was used, which consisted of the long-term expected rate of return on OPEB plan investments for the funded benefit payments of 6.00 and 6.50 percent and the Fidelity 20-year Municipal General Obligation AA Index rate of 3.71 percent and 3.31 percent at December 31, 2018 and December 31, 2017, respectively. At December 31, 2018, the long-term expected rate of return on health care investments was applied to projected costs through the year

### Note 13 – Retirement Plans (Continued)

2031, and the municipal bond rate was applied to all health care costs after that date. At December 31, 2017, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

The long-term expected rate of return on pension plan and OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. OPERS has two different portfolios of investment, a defined benefit portfolio for pension and health care portfolio for OPEB. As a result, there are different target allocations and long-term expected real rates of return disclosed for each portfolio. The target allocation and best estimates of arithmetic (geometric for STRS) real rates of return for each major asset class are summarized in the following table as of the dates listed below:

STRS - as of 7/1/18			OPERS - as of 12/31/18				
Investment Category	Target Allocation	Long-term Expected Real Rate of Return	Pension Portfolio		Health Care Portfolio		
			Target Allocation	Long-term Expected Real Rate of Return	Target Allocation	Long-term Expected Real Rate of Return	
Domestic equity	28.00%	5.10%	Fixed income	23.00%	2.79%	34.00%	2.42%
International equity	23.00%	5.30%	Domestic equities	19.00%	6.21%	21.00%	6.21%
Alternatives	17.00%	4.84%	Real estate	10.00%	4.90%	0.00%	0.00%
Fixed income	21.00%	0.75%	Private equity	10.00%	10.81%	0.00%	0.00%
Real estate	10.00%	3.75%	International equity	20.00%	7.83%	22.00%	7.83%
Liquidity reserves	1.00%	0.00%	REITs	0.00%	0.00%	6.00%	5.98%
			Other Investments	18.00%	5.50%	17.00%	5.57%
Total	100.00%		Total	100.00%		100.00%	

### Note 13 – Retirement Plans (Continued)

STRS - as of 7/1/17			OPERS - as of 12/31/17				
Investment Category	Target Allocation	Long-term Expected Real Rate of Return	Pension Portfolio		Health Care Portfolio		
			Investment Category	Target Allocation	Long-term Expected Real Rate of Return	Target Allocation	Long-term Expected Real Rate of Return
Domestic equity	28.00%	5.10%	Fixed income	23.00%	2.20%	34.00%	1.88%
International equity	23.00%	5.30%	Domestic equities	19.00%	6.37%	21.00%	6.37%
Alternatives	17.00%	4.84%	Real estate	10.00%	5.26%	0.00%	0.00%
Fixed income	21.00%	0.75%	Private equity	10.00%	8.97%	0.00%	0.00%
Real estate	10.00%	3.75%	International equity	20.00%	7.88%	22.00%	7.88%
Liquidity reserves	1.00%	0.00%	REITs	0.00%	0.00%	6.00%	5.91%
			Other Investments	18.00%	5.26%	17.00%	5.39%
Total	100.00%		Total	100.00%		100.00%	

**Sensitivity of the net pension liability to changes in the discount rate** – The following presents the net pension liability of the University, calculated using the discount rate listed below, as well as what the University's net pension liability would be if it were calculated using a discount rate that is 1.00 percentage point lower or 1.00 percentage point higher than the current rate:

Plan	1.00 Percent Decrease		2019 Current Discount Rate		1.00 Percent Increase	
	STRS	6.45%	\$ 32,086,745	7.45%	\$ 21,971,679	8.45%
OPERS	6.20%	28,055,720	7.20%	18,960,124	8.20%	11,404,228
		\$ 60,142,465		\$ 40,931,803		\$ 24,814,876

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

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

### Note 13 – Retirement Plans (Continued)

2019								
Plan	1.00 Percent Decrease		Current Discount Rate		1.00 Percent Increase			
STRS	6.45%	\$ (1,376,255)	7.45%	\$ (1,606,000)	8.45%	\$ (1,798,580)		
OPERS	2.96%	<u>11,151,748</u>	3.96%	<u>8,716,574</u>	4.96%	<u>6,779,968</u>		
		<u>\$ 9,775,493</u>		<u>\$ 7,110,574</u>		<u>\$ 4,981,388</u>		

2018								
Plan	1.00 Percent Decrease		Current Discount Rate		1.00 Percent Increase			
STRS	3.13%	\$ 5,536,419	4.13%	\$ 4,124,011	5.13%	\$ 3,007,748		
OPERS	2.85%	<u>10,163,822</u>	3.85%	<u>7,650,350</u>	4.85%	<u>5,616,979</u>		
		<u>\$ 15,700,241</u>		<u>\$ 11,774,361</u>		<u>\$ 8,624,727</u>		

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

2019						
Plan	1.00 Percent Decrease		Current Trend Rate		1.00 Percent Increase	
STRS	\$	(1,787,693)	\$	(1,606,000)	\$	(1,420,918)
OPERS		<u>8,378,519</u>		<u>8,716,574</u>		<u>9,105,923</u>
	\$	<u>6,590,826</u>	\$	<u>7,110,574</u>	\$	<u>7,685,005</u>



### Note 13 – Retirement Plans (Continued)

Plan	2018		
	1.00 Percent Decrease	Current Trend Rate	1.00 Percent Increase
STRS	\$ 2,865,186	\$ 4,124,011	\$ 5,780,773
OPERS	7,319,755	7,650,350	7,991,848
	<u>\$ 10,184,941</u>	<u>\$ 11,774,361</u>	<u>\$ 13,772,621</u>

**Pension plan and OPEB plan fiduciary net position** – Detailed information about the pension plan’s fiduciary net position is available in the separately issued STRS/OPERS financial report.

**Assumption changes** – During the current measurement period, the STRS Board adopted certain assumption changes that impacted the annual actuarial valuation for OPEB prepared as of June 30, 2018. The most significant changes were an increase in the OPEB discount rate from 4.13 percent to 7.45 percent and a reduction in the health care cost trend rates.

**Defined Contribution Pension Plan** - The Alternative Retirement Plan (ARP) is a defined contribution pension plan, under IRS Section 401(a), and established by Ohio Amended Substitute House Bill 586 (ORC 3305.02) on March 31, 1998, for public institutions of higher education. The University’s Board of Trustees adopted the University’s plan on April 18, 1998. Full-time employees are eligible to choose a provider, in lieu of STRS or OPERS, from the list of nine providers currently approved by the Ohio Department of Insurance and who hold agreements with the University. Employee and employer contributions equal to those required by STRS and OPERS are required for the ARP, less any amounts required to be remitted to the state retirement system in which the employee would otherwise have been enrolled. Eligible employees have 120 days from their date of hire to make an irrevocable election to participate in the ARP. Under this plan, employees who would have otherwise been required to be in STRS or OPERS, and who elect to participate in the ARP, must contribute the employee’s share of retirement contributions to one of nine private providers approved by the Ohio Department of Insurance. The legislation mandates that the employer must contribute an amount to the state retirement system to which the employee would have otherwise belonged, based on an independent actuarial study commissioned by the Ohio Retirement Study Council and submitted to the Ohio Board of Regents. That amount is 9.53 and 9.5 percent for STRS and 11.56 and 13.23 percent for OPERS for the years ended June 30, 2019 and 2018. If the employee was hired on or after August 2005, the employer contributes 6.00 percent. The employer also contributes what would have been the employer’s

## Note 13 – Retirement Plans (Continued)

contribution under STRS or OPERS, less the aforementioned percentages, to the private provider selected by the employee. The University plan provides these employees with immediate plan vesting. The ARP does not provide disability benefits, survivor benefits, or postretirement health care. Benefits are entirely dependent on the sum of contributions and investment returns earned by each participant's choice of investment options. STRS and OPERS also offer a defined contribution plan and a combined plan with features of both a defined contribution plan and a defined benefit plan. For the year ended June 30, 2019 and 2018, employee contributions totaled \$638,892 and \$680,114, and the University recognized pension expense of \$708,292 and \$752,286, respectively.

## Note 14 - Risk Management

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To address these exposures and reduce premiums, the

University is a member of the Inter-University Council of Ohio Insurance Consortium (IUC-IC), a purchasing partnership with 12 other Ohio four-year public universities.

During fiscal year 2019, the University maintained the lines of coverage below. All limits are dedicated to the University, unless explicitly noted as shared with other IUC-IC members. Real property and contents are 100 percent insured.

### Note 14 - Risk Management (Continued)

Lines of Coverage	Limit of Liability	Deductible
"All Risk" Property Coverage Including Boiler & Machinery	\$250,000 (Pool)	\$100,000
	\$100,000,000	\$350,000 (Pool)
	\$1,650,000,000 excess \$100,000,000 <sup>(1)</sup>	N/A
Automobile Physical Damage	Actual Cash Value	\$1,000
IUC-IC Casualty Pool	\$900,000	\$100,000
General Liability	\$10,000,000 <sup>(2)</sup>	N/A
Automobile Liability	\$10,000,000 <sup>(2)</sup>	N/A
Educators Legal Liability	\$10,000,000 <sup>(2)</sup>	N/A
1st Excess Liability	\$15,000,000 excess	N/A
	\$10,000,000 <sup>(1)</sup>	
1st Excess Educators Legal Liability	\$15,000,000 excess	N/A
	\$10,000,000 <sup>(1)</sup>	
2nd Excess Liability	\$25,000,000 excess	N/A
	\$25,000,000 <sup>(1)</sup>	
Crime	\$5,000,000	\$100,000
Medical Malpractice	\$1,000,000 occ./ \$3,000,000 agg.	\$25,000
Foreign	\$1,000,000	-
Special Accident	\$20,000,000	-
Pollution	\$5,000,000 <sup>(1)</sup>	\$25,000
Cyber Risk/Breach Response	\$1,000,000	\$25,000

Notes:

(1) Shared limits with other IUC-IC members

(2) Reinsurance provided by private carrier for \$9,000,000 excess of \$1,000,000

The University has an international travel comprehensive services assistance plan. The plan covers medical, security, and traveler assistance.

The University has a self-insured healthcare plan.

Changes in the self-insurance claims liability for the years ended June 30, 2019, 2018, and 2017 are summarized as follows:

	2019	2018	2017
Accrued claims liability - Beginning of year	\$ 356,740	\$ 412,909	\$ 494,763
Current year claims	3,480,085	4,204,941	5,122,619
Claims payments	(3,552,357)	(4,261,110)	(5,204,473)
Accrued claims liability - End of year	<u>\$ 284,468</u>	<u>\$ 356,740</u>	<u>\$ 412,909</u>

## Note 14 – Risk Management (Continued)

The liability amounts above are recorded in accrued wages and benefits on the statement of net position.

Workers' compensation benefits are provided through the Ohio Bureau of Workers' Compensation. Under Ohio's laws, there are no policy limits or cap on these benefits so long as treatment and compensation arise from the allowed conditions in a claim. There has been no significant change in coverage from last year.

## Note 15 - Component Unit Disclosure

### *Basis of Presentation*

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

### *Net Assets*

Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Net assets without donor restrictions are resources available to support operations. Net assets with donor restrictions at June 30, 2019 and 2018 are restricted primarily for scholarships, university programs, and capital improvements.

### *Contribution Revenue*

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

### *Investments*

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

The fair value of investments at June 30, 2019 and 2018, by classification, is as follows:

# Shawnee State University

## Notes to Financial Statements June 30, 2019 and 2018

### Note 15 - Component Unit Disclosure (Continued)

	2019	2018
U.S. government securities	\$1,418,127	\$1,498,544
Foreign bond issues	319,341	210,497
Mutual funds:		
Equity	12,683,140	12,950,907
Fixed income	3,111,036	3,214,381
Corporate bond issues	1,163,767	1,156,248
Limited Partnership	48,564	-
<b>Total</b>	<b>\$18,743,975</b>	<b>\$19,030,577</b>

#### Assets Measured at Fair Value on a Recurring Basis at June 30, 2019

Assets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2019
U.S. government securities	\$1,418,127	\$-	\$-	\$1,418,127
Mutual funds:				
Equity	12,683,140	-	-	12,683,140
Fixed income	3,111,036	-	-	3,111,036
Foreign bond issues	-	319,341	-	319,341
Corporate bond issues	-	1,163,767	-	1,163,767
Beneficial interest in trusts	-	-	796,980	796,980
Measured using NAV as a practical expedient:				
Limited partnership	-	-	-	48,564
<b>Total assets</b>	<b>\$17,212,303</b>	<b>\$1,483,108</b>	<b>\$796,980</b>	<b>\$19,540,955</b>

### Note 15 - Component Unit Disclosure (Continued)

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

Assets	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2018
U.S. government securities	\$1,498,544	\$-	\$-	\$1,498,544
Mutual funds:				
Equity	12,950,907	-	-	12,950,907
Fixed income	3,214,381	-	-	3,214,381
Foreign bond issues	-	210,497	-	210,497
Corporate bond issues	-	1,156,248	-	1,156,248
Beneficial interest in trusts	-	-	913,594	913,594
Total assets	<u>\$17,663,832</u>	<u>\$1,366,745</u>	<u>\$913,594</u>	<u>\$19,944,171</u>

#### *Fixed Assets*

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

Property and equipment consist of the following:

	2019	2018
Land	\$ 2,011,200	\$ 2,011,200
Equipment and furniture	81,202	23,583
Buildings	8,942,735	8,843,646
Construction in progress	33,800	10,500
Total property and equipment	<u>11,068,937</u>	<u>10,888,929</u>
Accumulated depreciation	<u>1,106,571</u>	<u>878,311</u>
Net property and equipment	<u>\$ 9,962,366</u>	<u>\$ 10,010,618</u>

## Note 15 - Component Unit Disclosure (Continued)

### *Debt*

The Foundation entered into a \$4,500,000 note with an interest rate of 5.0 percent payable to Hatcher Real Estate, LLC for the purchase of the Fourth Street Properties. The note is secured by the land and buildings. This note is payable in monthly installments of \$29,698. The payments are based on a 20-year amortization schedule and include a balloon payment due at maturity on February 25, 2019 for the remaining balance. The Foundation exercised an option to extend the maturity date for a two-year period to February 25, 2021; however, payments will continue during that time. At June 30, 2019 and 2018, the outstanding principal balance of the note was \$3,698,916 and \$3,865,792, respectively.

On August 17, 2017, the Foundation entered into a \$400,000 note with an interest rate of 5 percent payable to Burg DMI, LLC to purchase property at 221 Chillicothe Street. The note is secured by the land and building. This note requires monthly interest only payments for forty-eight months with the total principal due no later than August 17, 2020. At June 30, 2019 and 2018 the outstanding principal balance on the note was \$250,000 and \$400,000, respectively.

### *Related Party Transactions*

The Foundation made distributions to, or on behalf of, the University of \$1,642,865 during the year ended June 30, 2019 and \$1,053,123 during the year ended June 30, 2018. Administrative expenses of \$390,000 in fiscal year 2019 and \$389,975 in fiscal year 2018 were reimbursed to Shawnee State University for direct costs, including an allocation of salary and benefits, incurred in the management of the Foundation's and University's endowment funds.

The Foundation leases building space to Shawnee State University for the use of educational facilities. The outstanding lease due under this arrangement was \$22,006 and \$24,175 as of June 30, 2019 and 2018, respectively, and is reflected as a lease receivable in the Foundation's statements of net assets.

The Foundation passed through federal grants to the University, the administrative agent for the grants, in the amount of \$396,733 during the year ended June 30, 2019. The Foundation has recorded a grant payable to the University at June 30, 2019 in the amount of \$196,914. The University has receivables from the Foundation.

Complete financial statements for the Foundation can be obtained from the Shawnee State University Development Foundation, Inc. at 940 Second Street, Portsmouth, Ohio 45662.

## Required Supplementary Information

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# Shawnee State University

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

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

	2019	2018	2017	2016	2015
University's proportion of the collective net pension liability:					
As a percentage	0.0999%	0.1057%	0.11182%	0.10962%	0.11347%
Amount	\$21,971,679	\$25,109,186	\$ 37,430,954	\$ 30,295,455	\$ 27,600,967
University's covered employee payroll	\$10,747,943	\$11,360,000	\$ 13,596,142	\$ 11,436,893	\$ 10,440,100
University's proportionate share of the collective pension liability, as a percentage of the University's covered employee payroll	204.43%	221.03%	275.31%	264.89%	264.37%
Plan fiduciary net position as a percentage of the total pension liability	77.30%	77.30%	66.78%	72.10%	74.71%

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

	2019	2018	2017	2016	2015
University's proportion of the collective net pension liability:					
As a percentage	0.0694%	0.07287%	0.07976%	0.08469%	0.08633%
Amount	\$18,960,124	\$ 11,380,348	\$ 18,089,973	\$ 14,649,733	\$ 10,394,787
University's covered employee payroll	\$10,567,457	\$ 10,333,800	\$ 9,138,607	\$ 10,894,207	\$ 10,899,653
University's proportionate share of the collective pension liability, as a percentage of the University's covered employee payroll	179.42%	110.13%	197.95%	134.47%	95.37%
Plan fiduciary net position as a percentage of the total pension liability	74.91%	84.85%	77.39%	81.19%	86.53%

### STRS Schedule of University Pension Contributions

	2019	2018	2017	2016	2015
Statutorily required contribution	\$1,504,712	\$ 1,590,400	\$ 1,574,598	\$ 1,655,224	\$ 1,623,157
Contributions in relation to the actuarially determined contractually required contribution	\$1,504,712	\$ 1,590,400	\$ 1,574,598	\$ 1,655,224	\$ 1,623,157
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$10,747,943	\$ 11,360,000	\$ 11,247,129	\$ 11,823,029	\$ 11,593,979
Contributions as a percentage of covered employee payroll	14.00%	14.00%	14.00%	14.00%	14.00%

### OPERS Schedule of University Pension Contributions

	2019	2018	2017	2016	2015
Statutorily required contribution	\$1,479,444	\$ 1,446,721	\$ 1,279,405	\$ 1,495,704	\$ 1,534,786
Contributions in relation to the actuarially determined contractually required contribution	\$1,479,444	\$ 1,446,721	\$ 1,279,405	\$ 1,495,704	\$ 1,534,786
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$10,567,457	\$ 10,333,800	\$ 9,138,607	\$ 10,683,600	\$ 10,962,757
Contributions as a percentage of covered employee payroll	14.00%	14.00%	14.00%	14.00%	14.00%

### Changes of benefit terms.

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

### Changes of assumptions.

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

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

# Shawnee State University

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

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

#### Liability

	<u>2019</u>	<u>2018</u>
University's proportion of the collective net OPEB liability:		
As a percentage	0.0999%	0.10570%
Amount	-\$1,606,000	\$ 4,124,011
University's covered payroll	\$10,747,943	\$ 11,360,000
University's proportionate share of the collective OPEB liability, as a percentage of the University's covered payroll	(14.94%)	36.30%
Plan fiduciary net position as a percentage of the total OPEB liability	176.00%	47.11%

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

#### Liability

	<u>2019</u>	<u>2018</u>
University's proportion of the collective net OPEB liability:		
As a percentage	0.0669%	0.07287%
Amount	\$8,716,574	\$ 7,650,350
University's covered payroll	\$10,567,457	\$ 10,333,800
University's proportionate share of the collective OPEB liability, as a percentage of the University's covered payroll	82.49%	74.03%
Plan fiduciary net position as a percentage of the total OPEB liability	46.33%	54.14%

### STRS Schedule of University Contributions

	<u>2019</u>	<u>2018</u>
Statutorily required contribution	\$ -	\$ -
Contributions in relation to the actuarially determined contractually required contribution	\$ -	\$ -
Contribution deficiency (excess)	\$ -	\$ -
Covered payroll	\$10,747,943	\$ 11,360,000
Contributions as a percentage of covered payroll	0.00%	0.00%

### OPERS Schedule of University Contributions

	<u>2019</u>	<u>2018</u>
Statutorily required contribution	\$ -	\$ 64,689
Contributions in relation to the actuarially determined contractually required contribution	\$ -	\$ 64,689
Contribution deficiency (excess)	\$ -	\$ -
Covered payroll	\$10,567,457	\$ 10,333,800
Contributions as a percentage of covered payroll	0.00%	0.63%

*Changes of benefit terms.*

There were no significant changes in benefit terms affecting the STRS and OPERS plans for the plan years ended June 30, 2018 and December 31, 2018, respectively.

*Changes of assumptions.*

STRS: During the plan year ended June 30, 2018, there were changes to several assumptions for STRS. The investment rate of return increased from 4.51 percent to 7.45 percent. The health care cost trend rates decreased from 6.00 percent to 11.00 percent initial and 4.50 percent ultimate to -5.23 percent to 9.62 percent initial and 4 percent ultimate. The discount rate increased from a blended rate between the long-term expected rate of return and a 20-year municipal bond rate of 4.13 percent to the investment rate of return of 7.45 percent.

OPERS: There were no significant changes in assumptions for the OPERS plans for the plan years ended June 30, 2018 and December 31, 2018, respectively.

## Supplementary Information

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

**Independent Auditor's Report**

To Management and the Board of Trustees  
Shawnee State University

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of Shawnee State University (the "University"), a component unit of the State of Ohio, and its discretely presented component unit as of and for the year ended June 30, 2019 and the related notes to the basic financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 14, 2019.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2019-001, that we consider to be a significant deficiency.

**Compliance and Other Matters**

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

To Management and the Board of Trustees  
Shawnee State University

### **The University's Response to the Finding**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Plante & Moran, PLLC*

October 14, 2019

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required  
by the Uniform Guidance

**Independent Auditor's Report**

To the Board of Trustees  
Shawnee State University

**Report on Compliance for Each Major Federal Program**

We have audited Shawnee State University's (the "University") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on the University's major federal program for the year ended June 30, 2019. The University's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above.

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

**Opinion on Each Major Federal Program**

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended June 30, 2019.

**Other Matter**

The results of our auditing procedures disclosed an instance of noncompliance that is required to be reported in accordance with the OMB Uniform Guidance, which are described in the accompanying schedule of findings and questioned costs as Finding 2019-002. Our opinion on each major federal program is not modified with respect to this matter.

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

To the Board of Trustees  
Shawnee State University

### **Report on Internal Control Over Compliance**

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Finding 2019-002, that we consider to be a material weakness.

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

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

*Plante & Moran, PLLC*

October 14, 2019



Schedule of Expenditures of Federal Awards

Year Ended June 30, 2019

Federal Grantor/Pass-through Grantor/Program Title	CFDA Number	Federal/Pass-through Grant Number	Total Amount Provided to Subrecipients	Expenditures
U.S. Department of Education:				
Direct from Federal Agency - Student Financial Assistance Cluster:				
Federal Supplemental Educational Opportunity Grants (SEOG)	84.007	N/A	\$ -	\$ 118,325
Federal College Work Study	84.033	N/A	-	96,123
Federal Pell Grant Program	84.063	N/A	-	6,847,098
Federal Direct Loan Program	84.268	N/A	-	16,312,869
Teacher Education Assistance for College and Higher Education (TEACH)	84.379	N/A	-	81,015
Total Student Financial Assistance Cluster			-	23,455,430
TRIO Cluster:				
Educational Opportunity Centers	84.066A	N/A	-	383,139
Upward Bound Math Science	84.047M	N/A	-	269,544
Total TRIO Cluster			-	652,683
Direct from Federal Agency - Higher Education Institutional Aid	84.031A	N/A	-	361,541
Pass through the Ohio Department of Education - Special Education Cluster (IDEA) - TVI Collaborative				
	84.027	N/A	-	692,844
Pass through the Ohio Department of Education:				
Twenty-First Century Community Learning Centers	84.287	016863	-	396,732
Improving Teacher Quality State Grants	84.367A	N/A	-	3,733
Total Pass-through Programs			-	400,465
Department of Justice/Bureau of Justice Assistance - Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/A	-	11,885
National Endowment for the Humanities - Grants to States	45.310	N/A	-	60
U.S. Department of Agriculture - Pass through Ohio Department of Education - Child and Adult Care Food Program	10.558	16-CU, 21-CU, 21-FU	-	23,312
Total federal expenditures			\$ -	\$ 25,598,220

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Notes to Schedule of Expenditures of Federal Awards

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Year Ended June 30, 2019

**Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Shawnee State University (the "University") and its discretely presented component unit, Shawnee State University Development Foundation, under programs of the federal government for the year ended June 30, 2019. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net position, or cash flows of the University.

**Note 2 - Summary of Significant Accounting Policies**

Expenditures reported in the Schedule are reported on the same basis of accounting as the basic financial statements. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-21, *Cost Principles for Educational Institutions*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

The University has elected not to use the 10 percent *de minimis* indirect cost rate to recover indirect costs, as allowed under the Uniform Guidance.

**Note 3 - Federal Work-Study and Federal SEOG Waiver**

For the year ended June 30, 2019, the University received a waiver from the Department of Education for the Institutional Share Requirement under the Federal Work-Study and Federal Supplemental Educational Opportunity Grant programs.

**Note 4 - Federal Direct Loan Program**

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

**Schedule of Findings and Questioned Costs**

**Year Ended June 30, 2019**

**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?        Yes   X   None reported

**Federal Awards**

Internal control over major programs:

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

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

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster	Opinion
84.007, 84.033, 84.063, 84.268, 84.379	Student Financial Assistance Cluster	Unmodified

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

Auditee qualified as low-risk auditee?   X   Yes        No

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2019

Section II - Financial Statement Audit Findings

Reference Number	Finding
2019-001	<p data-bbox="362 531 797 556"><b>Finding Type</b> - Significant deficiency</p> <p data-bbox="362 581 1479 638"><b>Criteria</b> - Controls should be in place to ensure that bank reconciliations are completed and reviewed on a timely basis and cash is properly reconciled to the general ledger.</p> <p data-bbox="362 661 1479 747"><b>Condition</b> - The University did not properly complete bank reconciliations throughout the year, and cash accounts were not reconciled to the general ledger on a monthly basis until March 2019.</p> <p data-bbox="362 770 1479 827"><b>Context</b> - The issue relates to the University's cash accounts and reconciliations completed prior to March 2019.</p> <p data-bbox="362 850 1479 968"><b>Cause</b> - The University implemented a new general ledger system during fiscal year 2018, which caused issues with the automatic bank reconciliation process. The general ledger system's automatic bank reconciliation function did not properly reconcile information between the bank accounts and the general ledger.</p> <p data-bbox="362 991 1479 1108"><b>Effect</b> - As a result of the University not completing monthly bank reconciliations during part of the year, there is a risk that errors in cash would not be detected and corrected in a timely manner. There is also a risk that misappropriated cash would not be detected and corrected in a timely manner.</p> <p data-bbox="362 1131 1479 1218"><b>Recommendation</b> - We recommend that the University implement internal controls around the bank reconciliation process in order to ensure that it is able to be properly completed and reviewed on a monthly basis throughout the year.</p> <p data-bbox="362 1241 1479 1455"><b>Views of Responsible Officials and Planned Corrective Actions</b> - Due to September 2018 software updates to the ERP reconciliation process utilized by the University, automated functions of the reconciliation process ceased working properly (eg., duplicate journal entries were created for activity in prior months), which required significant hours to resolve. Until the issues were resolved (March 2019), the University performed manual matching of bank transactions, but could not prepare a comprehensive bank reconciliation. From March 2019 forward, complete bank reconciliations have been prepared.</p>

Schedule of Findings and Questioned Costs (Continued)

Year Ended June 30, 2019

Section III - Federal Program Audit Findings

Reference Number	Finding
2019-002	<p><b>CFDA Number, Federal Agency, and Program Name</b> - CFDA Nos. 84.063, 84.268; Department of Education; Federal Pell Grant Program and Federal Direct Student Loans</p> <p><b>Federal Award Identification Number and Year</b> - N/A</p> <p><b>Pass-through Entity</b> - N/A</p> <p><b>Finding Type</b> - Material weakness and material noncompliance with laws and regulations</p> <p><b>Repeat Finding</b> - No</p> <p><b>Criteria</b> - Federal Pell Grant Program: An institution shall submit, in accordance with deadline dates established by the secretary, through publication in the Federal Register, other reports and information the secretary requires and shall comply with the procedures the secretary finds necessary to ensure that the reports are correct (34 CFR Section 690.83(b)(2)).</p> <p>Federal Direct Student Loans: Changes in student status are required to be reported to the National Student Loan Data System (NSLDS) within 30 days of the change or included in a Student Status Confirmation Report (SSCR) sent to the NSLDS within 60 days of the status change (34 CFR Section 685.309(b)).</p> <p><b>Condition</b> - Shawnee State University did not report the proper student status changes for certain students who graduated.</p> <p><b>Questioned Costs</b> - None</p> <p><b>Identification of How Questioned Costs Were Computed</b> - N/A</p> <p><b>Context</b> - Of the 25 students tested for student status changes, 2 students were not properly reported as graduated.</p> <p><b>Cause and Effect</b> - Shawnee State University did not have proper controls in place over the graduate file submission to the National Student Clearinghouse to ensure that students were appropriately reported to the NSLDS.</p> <p><b>Recommendation</b> - Shawnee State University should implement controls and processes to ensure that graduation files submitted are complete and are properly reported to the NSLDS.</p> <p><b>Views of Responsible Officials and Corrective Action Plan</b> - Based on discussions with the National Student Clearinghouse personnel, the registrar's office will begin sending a graduates-only enrollment file in addition to the degree verification file the University has been sending in the past. This additional file should resolve the issue of graduation status not being sent from the National Student Clearinghouse to the NSLDS. Moving forward, a member of the registrar's office will review all file submissions to ensure graduation statuses are reported correctly.</p>

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**Shawnee State University**

**10/4/2019**

**Summary Schedule of Prior Audit Findings**

**Prior Year Finding Number:** 2018-001

**Fiscal Year in Which the Finding Initially Occurred:** Fiscal Year Ended June 30, 2018

**Federal Program, CFDA Number and Name:** N/A

**Original Finding Description:** The University did not properly complete bank reconciliations throughout the year, and cash accounts were not fully reconciled to the general ledger until the end of the year.

**Status/Partial Corrective Action (as applicable):** Due to September 2018 software updates to the ERP reconciliation process utilized by the University, automated functions of the reconciliation process ceased working properly (ex: duplicate journal entries were created for activity in prior months) which required significant hours to resolve. Until the issues were resolved (March 2019), the University performed manual matching of bank transactions but could not prepare a comprehensive bank reconciliation. See current year finding 2019-001.

**Planned Corrective Action:** From March 2019 forward complete bank reconciliations have been prepared.

**Prior Year Finding Number:** 2018-002

**Fiscal Year in Which the Finding Initially Occurred:** Fiscal Year Ended June 30, 2018

**Federal Program, CFDA Number and Name:** CFDA No. 84.268, Federal Direct Loan Program

**Original Finding Description:** The University awarded financial aid to one student in excess of the undergraduate aggregate limit for Direct Subsidized Loans.

**Status/Partial Corrective Action (as applicable):** Fully corrected

**Planned Corrective Action:** N/A

**Prior Year Finding Number:** 2018-003

**Fiscal Year in Which the Finding Initially Occurred:** Fiscal Year Ended June 30, 2018

**Federal Program, CFDA Number and Name:** CFDA No. 84.268, Federal Direct Loan Program

**Original Finding Description:** The University did not complete a monthly School Account Statement Direct Loan reconciliation for October 2017.

**Status/Partial Corrective Action (as applicable):** Fully corrected

**Planned Corrective Action:** N/A



**Shawnee State University**

**10/4/2019**

**Corrective Action Plan**

**Finding Number: 2019-001**

**Condition:** The University did not properly complete bank reconciliations throughout the year, and cash accounts were not fully reconciled to the general ledger until March 2019.

**Planned Corrective Action:** Due to September 2018 software updates to the ERP reconciliation process utilized by the University, automated functions of the reconciliation process ceased working properly (ex: duplicate journal entries were created for activity in prior months) which required significant hours to resolve. Until the issues were resolved (March 2019), the University performed manual matching of bank transactions but could not prepare a comprehensive bank reconciliation. March 2019 forward complete bank reconciliations have been prepared.

**Contact person responsible for corrective action:** Greg A. Ballengee, Controller

**Anticipated Completion Date:** 3/31/2019

**Finding Number: 2019-002**

**Condition:** The University did not report the proper student status changes for certain students that graduated.

**Planned Corrective Action:** Based on discussions with the National Student Clearinghouse personnel, the Registrar's Office will begin sending a Graduates Only Enrollment File in addition to the Degree Verification file the University has been sending in the past. This additional file should resolve the issue of graduation status not being sent from the National Student Clearinghouse to NSLDS. Moving forward, a member of the Registrar's Office will review all file submissions to ensure graduation statuses are reported correctly.

**Contact person responsible for corrective action:** Tami Sheets, Registrar

**Anticipated Completion Date:** 12/1/2019



# OHIO AUDITOR OF STATE KEITH FABER



**SHAWNEE STATE UNIVERSITY**

**SCIOTO COUNTY**

## **CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
NOVEMBER 26, 2019**