

# **OWENS STATE COMMUNITY COLLEGE**

Financial Statements

June 30, 2016 and 2015

with Independent Auditors' Report





# Dave Yost • Auditor of State

Board of Trustees  
Owens State Community College  
PO Box 10000  
Toledo, Ohio 43699

We have reviewed the *Independent Auditors' Report* of the Owens State Community College, Wood County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2015 through June 30, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

November 17, 2016

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# Owens State Community College

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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Owens State Community College  
Perrysburg, Ohio

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Owens State Community College (the "College"), a component unit of the State of Ohio, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component unit of the College, as of June 30, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3-12) and the schedules of the College's proportionate share of the net pension liability (page 47) and College contributions (page 48) 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 who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College'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 purpose of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal award 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 10, 2016 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.

*Clark, Schaefer, Hackett & Co.*

Springfield, Ohio  
October 10, 2016

# Owens State Community College

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## Management's Discussion and Analysis - Unaudited

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The following management's discussion and analysis (MD&A) provides an overview of the financial position and activities of Owens State Community College for the year ended June 30, 2016 with comparative information for the year ended June 30, 2015 and 2014. The MD&A should be read in conjunction with the accompanying audited financial statements and footnotes.

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### ABOUT OWENS STATE COMMUNITY COLLEGE

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Founded in 1965, Owens Community College (the "College") continues to offer an affordable, quality education to those who are seeking an associate degree, continuing education courses, and professional development. The College allows you to complete the first two years of a bachelor's degree and then transfer to any four-year University or College. To enhance this process, the College has cultivated transfer agreements with over 20 area four-year colleges and universities.

The Toledo-area campus covers more than 280 acres and is located near downtown Toledo. The 60-acre Findlay-area campus is at 3200 Bright Road on Findlay's northeast side. The College also provides educational opportunities at the Source, Lucas County's One-Stop Employment Center in downtown Toledo. Between our three campus locations, over 11,500 credit and non-credit students are served annually. The College is a comprehensive community college accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools.

The College is currently governed by a nine voting member board of trustees who are responsible for oversight of academic programs, budgets, general administration, and employment of faculty and staff. The trustees are appointed by the governor with the advice and consent of the State Senate for staggered six-year terms.

The following financial statements reflect all assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position of the College and its discretely presented legally separate entity, Owens Community College Foundation (the "Foundation"). The Foundation's primary function is fundraising to supplement the resources that are available to the College in support of its programs. The Foundation is governed by a separate board of trustees which is self-perpetuating and consists of graduates and friends of the College. Nearly all the assets of the Foundation are restricted by donors to activities of the College. The College does not control the timing or amount of receipts from the Foundation.

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### ABOUT THE FINANCIAL STATEMENTS

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The annual financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*. In addition to this MD&A section, the audited financial statements include a statement of net position; statement of revenue, expenses, and changes in net position; statement of cash flows; and the notes to the financial statements. In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, which amends GASB Statement No. 14, the Foundation is discretely presented as a component unit of the College. The Foundation is excluded from Management's Discussion and Analysis. Complete financial statements for the Foundation can be obtained from Owens State Community College, 30335 Oregon Road, Perrysburg, OH 43551.



# Owens State Community College

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

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### Using This Annual Report

The College's annual report consists of three basic financial statements: the statement of net position, the statement of revenue, expenses, and changes in net position, and the statement of cash flows. These financial statements are prepared in accordance with GASB principles.

The financial statements report the College's net position and changes in net position. Increases or decreases in the College's net position are indicative of the College's financial position. Changes of a nonfinancial nature are relevant as well, such as enrollment trends, program growth or decline, the functionality of facilities, and required maintenance.

The College's financial statements are prepared using the accrual basis of accounting.

Another important factor to consider when evaluating the financial viability of the College is its ability to meet financial obligations as they mature. The statement of cash flows presents the information related to cash inflows and outflows. This is broken down into four components: operating, investing, capital, and noncapital financing activities. The statement shows the College's sources and uses of cash.

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### FINANCIAL HIGHLIGHTS

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The net position by category for fiscal years 2016, 2015, and 2014 are shown below. Net position in aggregate increased \$6,504,763 from fiscal year 2015 to fiscal year 2016 and decreased \$147,332 from fiscal year 2014 to fiscal year 2015. In fiscal year ended June 30, 2016, the College's revenue decreased primarily from the outsourcing of the College's bookstore operations. The College's expenses decreased largely from salaries, wages and benefits and the outsourcing of the College's bookstore operations as well as the cost recovery plan implemented as noted later.

	<u>Capital Assets</u>	<u>Unrestricted</u>	<u>Net Position</u>
FY 2016	\$ 82,289,255	\$ (94,153,436)	\$ (11,864,181)
FY 2015	83,258,359	(101,627,303)	(18,368,944)
FY 2014	83,681,835	(101,903,447)	(18,221,612)

# Owens State Community College

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

A summarization of the College's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position at June 30, 2016, 2015 and 2014 follows:

	June 30		
	2016	2015	2014
<b>Assets</b>			
Current assets	\$ 20,520,791	\$ 23,056,623	\$ 28,441,252
Capital assets	84,516,369	86,466,321	88,089,962
Notes receivable	<u>53,177</u>	<u>60,177</u>	<u>67,677</u>
Total assets	105,090,337	109,583,121	116,598,891
<b>Deferred Outflows of Resources</b>	<u>8,619,363</u>	<u>6,473,209</u>	<u>6,085,953</u>
<b>Liabilities</b>			
Current liabilities	15,055,497	22,259,960	26,807,903
Noncurrent liabilities	<u>96,462,928</u>	<u>95,917,530</u>	<u>114,098,553</u>
Total liabilities	111,518,425	118,177,490	140,906,456
<b>Deferred Inflows of Resources</b>	<u>14,055,456</u>	<u>16,247,784</u>	<u>-</u>
<b>Net Position</b>			
Net investment in capital assets	82,289,255	83,258,359	83,681,835
Unrestricted	<u>(94,153,436)</u>	<u>(101,627,303)</u>	<u>(101,903,447)</u>
Total net position	<u><b>\$ (11,864,181)</b></u>	<u><b>\$ (18,368,944)</b></u>	<u><b>\$ (18,221,612)</b></u>

### 2016 Variances

Current assets decreased by \$2,535,832 from 2015 to 2016 primarily due to decreases in prepaid expenses and deferred charges, inventories, and accounts receivable. Capital assets decreased by \$1,949,952 due to capital asset depreciation offset by capital asset purchases. Current liabilities decreased by \$7,204,463 from 2015 to 2016 primarily due to a decreases in accounts payable, unearned revenue, and deposits held for others. The noncurrent liabilities increased \$545,398 due to an increase to net pension liability and a decrease notes payable. Net position increased primarily due the reduction of salaries, wages and benefits and the outsourcing of the College's bookstore operations.

### 2015 Variances

Current assets decreased by approximately \$5,385,000 from 2014 to 2015 primarily due to decreases in prepaid expenses and deferred charges and accounts receivable. Capital assets decreased by approximately \$1,624,000 due to capital asset depreciation offset by capital asset purchases. Current liabilities decreased from 2014 to 2015 primarily due to a decrease in unearned revenue which is reduced by increases in accounts payable and deposits held for others. The noncurrent liabilities decreased from 2014 to 2015 due to principal payment on debt and a reduction of approximately \$17,001,000 in the College's portion of the net pension liability. Net position decreased primarily due to the decrease in capital assets, and State appropriations, and the decline in student enrollment.

# Owens State Community College

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

The following is a summary of the College's revenue, expenses, and changes in net position for the years ended June 30, 2016, 2015 and 2014.

	Year Ended June 30		
	2016	2015	2014
<b>Operating Revenue</b>			
Student tuition and fees	\$ 25,351,836	\$ 24,493,575	\$ 24,546,356
Grants - Federal, state, and local	3,190,549	2,813,233	3,324,876
Sales and service	463,536	88,494	85,856
Auxiliary activities	1,406,742	5,650,262	7,293,369
Other operating revenue	397,135	297,040	333,130
Total operating revenue	30,809,798	33,342,604	35,583,587
<b>Operating Expenses</b>			
Educational and general	67,331,437	78,086,906	79,678,915
Depreciation	5,798,412	6,088,650	6,210,891
Auxiliary enterprises	1,649,016	5,371,819	7,979,308
Total operating expenses	74,778,865	89,547,375	93,869,114
<b>Operating Loss</b>	(43,969,067)	(56,204,771)	(58,285,527)
<b>Nonoperating Revenue</b>			
State appropriations	31,680,550	33,062,633	34,463,030
Pell grants	14,794,249	18,596,658	23,571,329
Investment income	447,089	401,391	371,086
Interest expense	(48,398)	(57,209)	(104,930)
Total nonoperating revenue	46,873,490	52,003,473	58,300,515
<b>Income (loss) Before Other Revenue</b>			
Before capital appropriations and grants	2,904,423	(4,201,298)	14,988
<b>Capital Appropriations and Grants</b>	3,600,340	4,053,966	3,418,192
<b>Increase (decrease) in Net Position</b>	6,504,763	(147,332)	3,433,180
<b>Net Position - Beginning of year</b>	(18,368,944)	(18,221,612)	N/A
<b>Net Position - End of year</b>	<u>\$ (11,864,181)</u>	<u>\$ (18,368,944)</u>	<u>\$ (18,221,612)</u>

N/A - Information necessary to restate 2014 activity for implementation of GASB 68 was not available (pension expense) and therefore 2014 amounts have not been fully revised due to GASB 68.

# Owens State Community College

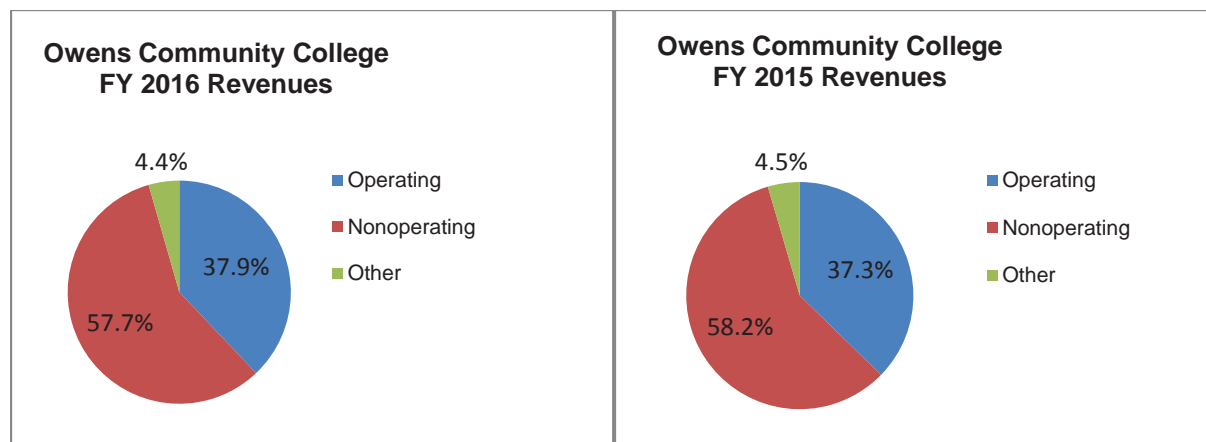
## Management's Discussion and Analysis - Unaudited (Continued)

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

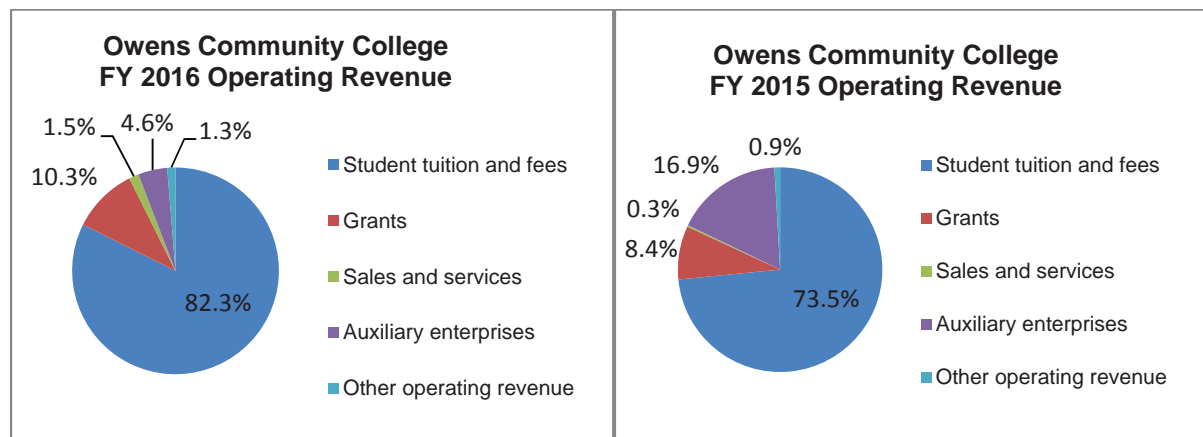
The College's two major sources of revenue are operating (tuition and fees) and nonoperating (the state share of instruction). Both types of revenue are tied to enrollment, with tuition and fees being generated via an assessment mechanism. This mechanism focuses on individual credit hours of enrollment. The state share of instruction is distributed through a funding formula which is 100 percent performance based. The funding model includes three major components: course completion, success points and attainment or credential completion. Course completion is 50 percent of the formula based on students receiving a "D" or better for their course work. Success points are 25 percent of the formula and are based on when the student reaches 12, 24 and 36 completed credit hours. The remaining 25 percent of the formula is for attainment or credential completion which includes degree attainment, certificate attainment and a component for student transfer to an Ohio public or private institution.

### Operating Revenue

The charts below present total revenue by category for the fiscal years ended June 30, 2016 and 2015:



The charts below reflect the College's operating revenue for the fiscal years ended June 30, 2016 and 2015:



# Owens State Community College

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

For fiscal year 2014, the per credit hour rate was \$149.60 for instruction and general fees following the state mandated tuition increase which was changed to 2 percent or \$100 per year whichever was greater for the institution. For fiscal year 2015, the per credit hour rate was \$153.00 for instruction and general fees following the state mandated tuition increase which was changed to 2 percent or \$100 per year whichever was greater for the institution. For fiscal year 2016, state legislation did not allow for tuition increases.

Gross student tuition and fees revenue decreased in both fiscal years 2016 and 2015. Total tuition and fees were \$41,003,296 and \$42,019,287, respectively.

Scholarship allowances and scholarship dollars per FTE have decreased. For 2016, scholarship allowances totaled \$15,651,460 and scholarship dollars per FTE were \$2,402. For 2015, scholarship allowances totaled \$17,525,712 and scholarship dollars per FTE were \$2,409.

Grant revenue increased in fiscal year 2016 by \$377,316. The increase in grant revenue for fiscal year 2016 was due to the timing of new grants beginning and existing grants ending during the year. Auxiliary service activities (including food services, bookstore commissions, childcare services, Center for Fine and Performing Arts, communications, and copy center) decreased primarily due the outsourcing of the bookstore.

### Nonoperating Revenue

The College's largest single source of revenue is the nonoperating revenue received from the State of Ohio. The College's State share of instruction amounted to \$31,680,550 and \$33,062,633, in fiscal years 2016 and 2015, respectively. The State share of instruction was \$4,889 and \$4,545 per FTE for fiscal years 2016 and 2015, respectively. Another component of nonoperating revenue is investment income. In 2016, investment income increased by \$45,698 in comparison to 2015. Investment income increased due to the changes in composition of investments.

Pell grants declined in fiscal year 2016 by \$3,802,409 compared to fiscal year 2015. The decline in Pell grants is reflective of the decrease in enrollment and changes in financial aid regulations.

### Operating Expense Changes

The College's operating expenses reflect changes related to student enrollment, college initiatives, and instructional program changes. The declining enrollment for the past five fiscal years led the College to right size the positions, class size and other expenditures based on in-depth analysis of the projected enrollment for fiscal 2016 and 2015. Based on the analysis, positions were eliminated through retirements, layoffs, and other existing vacancies which reduced salaries, wages, and fringe benefits throughout the College. Other operating expenditures were reduced based on the analysis such as travel, course and lab supply, and bookstore purchases. Instructional and departmental research expenses decreased in fiscal year 2016 due to the reduction in course and lab supplies expenditures and decreased salary, wages, and fringe benefits. Institutional research and public service expenses had a decrease for fiscal year 2016 compared to 2015 due to funding of grant-related programs. Scholarships and other student aid decreased in fiscal year 2016 due to a decline in enrollment and Pell grants.

The depreciation expense for fiscal years 2016, 2015 and 2014 was \$ 5,798,412, \$6,088,650 and \$6,210,891, respectively.

# Owens State Community College

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

### Capital Assets

At June 30, 2016, 2015 and 2014, the College had \$84,516,369 and \$86,466,321 and \$88,089,962, respectively, invested in capital assets.

The details of the capital assets at June 30, 2016, 2015 and 2014 are shown below:

	2016	2015	2014
Land and land improvements	\$ 38,941,414	\$ 38,941,414	\$ 38,941,414
Buildings	114,905,851	110,684,361	109,790,540
Equipment	23,514,049	22,174,798	28,927,675
Leasehold improvements	488,733	488,773	488,773
Less accumulated depreciation	(94,719,706)	(88,944,992)	(90,060,140)
Net of depreciation	83,130,341	83,344,354	88,088,262
Construction in progress	1,386,028	3,121,967	1,700
Total	<u>\$ 84,516,369</u>	<u>\$ 86,466,321</u>	<u>\$ 88,089,962</u>

Debt associated with capital assets relate to equipment, information technology upgrades, and funding for the upgrade to the existing infrastructure with energy efficient resources. Total debt remaining at June 30, 2016, 2015 and 2014 was \$2,227,114, \$3,207,962 and \$4,408,127, respectively, with the majority of the debt related to the energy efficiency program.

### Capital Projects

Fiscal year 2016 saw the completion of several major projects. The College completed the Heritage Hall project, which provided updated facilities for the Business, Nursing, and Hospitality programs. In addition, the College completed a major renovation to the Admissions Center within College Hall. The College also began a major restoration project to Kingsley Hall, which will house services for Veterans on campus.

Fiscal year 2015 saw the completion of the HVAC upgrade, door replacements, carpet replacements, restroom renovations, and several smaller renovation projects.

# Owens State Community College

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

### Cash Flows

The statements of cash flows for the years ended June 30, 2016, 2015 and 2014 are as follows:

	Year Ended June 30		
	2016	2015	2014
<b>Cash Flows from Operating Activities</b>			
Student tuition and fees	\$ 27,166,642	\$ 25,596,749	\$ 25,876,928
Grants - Federal, state, and local	3,190,549	2,815,026	1,897,903
Payments to employees, suppliers, students, and others	(74,312,649)	(79,420,150)	(97,289,858)
Auxiliary enterprises	2,465,659	4,705,365	7,324,520
Sales and services	485,541	(1,417,247)	1,572,430
Other receipts	404,135	307,407	374,464
Net cash used in operating activities	(40,600,123)	(47,412,850)	(60,243,613)
<b>Cash Flows from Noncapital Financing Activities</b>			
Pell grant	14,794,249	18,596,658	23,571,329
State appropriations	31,680,550	33,062,633	34,463,030
Agency transactions	(1,695,804)	1,993,781	(4,598)
Net cash provided by noncapital financing activities	44,778,995	53,653,072	58,029,761
<b>Cash Flows from Capital and Related Financing Activities</b>			
Principal payments on notes payable	(1,000,948)	(1,200,165)	(1,554,196)
Borrowing under a capital lease purchase	20,100		
Capital appropriations and grants	2,926,671	2,820,166	3,418,192
Interest paid on notes payable	(48,398)	(57,209)	(104,930)
Purchases of capital assets	(4,288,650)	(3,229,509)	(4,066,060)
Net cash used in capital and related financing activities	(2,391,225)	(1,666,717)	(2,306,994)
<b>Cash Flows from Investing Activities</b>			
Interest on investments	447,089	4,030	18,906
Net change in investments	(2,750,296)	127,980	437,866
Net cash provided by investing activities	(2,303,207)	132,010	456,772
<b>Net Increase (Decrease) in Cash</b>	(515,560)	4,705,515	(4,064,074)
<b>Cash - Beginning of year</b>	6,024,471	1,318,956	5,383,030
<b>Cash - End of year</b>	<u>\$ 5,508,911</u>	<u>\$ 6,024,471</u>	<u>\$ 1,318,956</u>

# Owens State Community College

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

	Year Ended June 30		
	2016	2015	2014
Reconciliation of operating loss to net cash from operating activities:			
Operating loss	\$(43,969,067)	\$(56,204,771)	\$(58,285,527)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation	5,798,412	6,088,650	6,210,891
Changes in assets and liabilities:			
Receivables - Net	2,943,991	9,841,380	4,740,995
Deposits	22,005	-	-
Inventories	1,058,917	867,005	(345,468)
Prepaid expenses and deferred charges	745,655	1,012,833	566,032
Deferred outflows of resources	7,000	7,500	(6,085,953)
Notes receivable - Net	(2,146,154)	(387,256)	7,500
Accounts payable	(1,820,236)	3,379,379	(3,508,502)
Salaries, wages, and benefits payable	(517,565)	(669,078)	(517,736)
Net pension liability	1,715,814	(17,001,091)	-
Deferred inflows of resources	(2,192,328)	16,247,784	-
Unearned revenue	(2,246,567)	(10,595,185)	(3,025,845)
Net cash used in operating activities	<u><b>\$(40,600,123)</b></u>	<u><b>\$(47,412,850)</b></u>	<u><b>\$(60,243,613)</b></u>

Cash used in operating activities for fiscal year 2016 decreased over 2015 due primarily to a decrease in operating expenses incurred by the College. Primary inflows of operating cash are from tuition and fees, grant revenue, and auxiliary enterprises. Primary outflows of operating cash are payments to employees and suppliers. Cash flows from noncapital financing activities decreased due to the decreased amount of Pell grants students received and a decrease in state appropriations. Cash flows from capital and related financing activities decreased due to an increase in purchases of capital assets. Cash flows from investing activities increased during the fiscal year.

Cash used in operating activities for fiscal year 2015 decreased over 2014 due primarily to a decrease in operating expenses incurred by the College. Primary inflows of operating cash are from tuition and fees, grant revenue, and auxiliary enterprises. Primary outflows of operating cash are payments to employees and suppliers. Cash flows from noncapital financing activities decreased due to the decreased amount of Pell grants students received and a decrease in state appropriations. Cash flows from capital and related financing activities increased from 2014 due to a decrease in purchases of capital assets. Cash flows from investing activities decreased during the fiscal year.

### Initiatives

The College continues to be committed to identifying opportunities that will strengthen our mission of serving our students and community. Our commitment has been reinforced through our new program development leading to an associate degree or certificate, renovations of existing facilities and equipment, and providing workforce training to the community.

The College started a truck driving program in fiscal year 2016. This program will provide needed drivers to the expanding logistics operations in the area. Given Owens' location, centered off several major highways and convenient to major upper Midwest cities, trucking is an in-demand career field. The College is expanding the truck driving program to the Findlay Campus in fiscal year 2017.



# Owens State Community College

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

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Another example of the commitment to Workforce Training is the continued relationship with Caterpillar and John Deere training programs. Owens' provides dealer training for these major employers for the Midwest region. To provide additional trained employees for Caterpillar and John Deere, Owens has received state capital funding to expand the training facility which houses these needed programs. In addition, Owens is currently working with several other major employers to expand manufacturing training to their employees.

As we return to fiscal stability, Owens is focused on upgrading needed training equipment for students in the classroom. A renewed commitment to upgrading computer network training equipment, sonogram equipment, shooting range upgrades, and student computers will provide students with better real-world training opportunities at Owens.

In fiscal year 2016, the College began to phase increases to student non-general fees to help cover student costs for technology, student engagement and other services. Non-general fees and lab/course fees will be annually reviewed.

### **Fiscal Watch Designation**

As disclosed in Note 13 to the financial statements, the College was placed on "Fiscal Watch" by the Ohio Department of Higher Education, now named the Department of Higher Education, during fiscal year 2015. This designation was applied as the College failed to meet minimum financial ratios for the prior two fiscal years.

As required by the Ohio Administrative Code, the College's Board of Trustees adopted and submitted a financial recovery plan to the Department of Higher Education designed to restore the college's financial health. By adhering to the financial recovery plan, and implementing internal controls to ensure compliance with the budget, the College anticipates being removed from Fiscal Watch based on the FY 2016 financial results. The College calculates a SB6 score of 3.0, which would exceed the 2.40 threshold to be removed from Fiscal Watch. To be removed from Fiscal Watch, the Chancellor of the Department of Higher Education must issue a directive based on the criteria that a SB6 score of at least 2.40 for a fiscal year has been achieved; the college must remediate all of the conditions that led to fiscal watch including cash flow problems for other reportable events; and, no other condition can exist or would likely materialize. The College's goal of the financial recovery plan was to come out of fiscal watch after FY 2017 and to be financially stable going forward into the future.

Financial diligence toward sustainability includes:

- Covering student-related costs and keeping current with technology and equipment
- Controlling costs and monitoring through the management of budgets, cash, financial statements and implementing controls through the purchasing policy and the financial standards policy
- Building the reserves
- Identifying and implementing efficiencies, cost savings and diversifying revenue streams, including through auxiliary operations

# Owens State Community College

## Statements of Net Position

	June 30	
	2016	2015
<b>Current Assets</b>		
Cash and cash equivalents (Note 2)	\$ 5,508,911	\$ 6,024,471
Investments (Note 3)	2,783,102	32,806
Accounts receivable - Net (Note 5)	10,675,172	13,600,144
Receivable from Foundation (Note 10)	10,223	29,242
Prepaid expenses and deferred charges	1,535,883	2,281,538
Deposits	-	22,005
Inventories	-	1,058,917
Student loans receivable - Net	7,500	7,500
Total current assets	<u>20,520,791</u>	<u>23,056,623</u>
<b>Noncurrent Assets</b>		
Capital assets - Net (Note 6)	84,516,369	86,466,321
Student loans receivable - Net	53,177	60,177
Total noncurrent assets	<u>84,569,546</u>	<u>86,526,498</u>
Total assets	<u>105,090,337</u>	<u>109,583,121</u>
<b>Deferred Outflows of Resources</b>		
Pensions (Note 8)	8,619,363	6,473,209
Total deferred outflows of resources	<u>8,619,363</u>	<u>6,473,209</u>
<b>Current liabilities</b>		
Accounts payable	4,610,916	7,545,011
Notes payable (Note 7)	1,015,060	1,000,737
Salaries, wages, and fringe benefits payable	6,051,103	6,393,423
Unearned revenue	3,080,541	5,327,108
Deposits held for others	297,877	1,993,681
Total current liabilities	<u>15,055,497</u>	<u>22,259,960</u>
<b>Noncurrent liabilities</b>		
Benefits payable (Note 7)	2,029,573	2,204,818
Notes payable (Note 7)	1,212,054	2,207,225
Net pension liability (Note 8)	93,073,977	91,358,163
Non-federal student loans (Note 7)	147,324	147,324
Total noncurrent liabilities	<u>96,462,928</u>	<u>95,917,530</u>
Total liabilities	<u>111,518,425</u>	<u>118,177,490</u>
<b>Deferred Inflows of Resources</b>		
Pensions (Note 8)	14,055,456	16,247,784
Total deferred inflows of resources	<u>14,055,456</u>	<u>16,247,784</u>
<b>Net Position</b>		
Invested in capital assets	82,289,255	83,258,359
Unrestricted	(94,153,436)	(101,627,303)
Total net position	<u>\$ (11,864,181)</u>	<u>\$ (18,368,944)</u>

See notes to Financial Statements.

# Owens State Community College

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

	Year Ended June 30	
	2016	2015
<b>Revenues</b>		
Operating revenues:		
Student tuition and fees - Net of scholarship allowances of \$15,651,460 (2016) and \$17,525,712 (2015)	\$ 25,351,836	\$ 24,493,575
Grants - Federal, state, and local	3,190,549	2,813,233
Sales and services	463,536	88,494
Auxiliary enterprises - Net of scholarship allowances of \$453,354 (2016) and \$474,987 (2015)	1,406,742	5,650,262
Other operating revenues	397,135	297,040
Total operating revenues	<u>30,809,798</u>	<u>33,342,604</u>
<b>Expenses:</b>		
Operating expense:		
Salaries, wages and benefits	48,915,513	56,006,501
Supplies	2,799,975	3,781,706
Travel, entertainment and professional development	460,583	613,536
Information and communication	2,519,452	3,051,286
Occupancy	3,409,979	4,209,900
Cost of goods sold	445,605	4,223,349
Outside services	7,560,370	7,303,351
Scholarships and other student aid	974,516	2,752,678
Allowance for doubtful accounts	1,129,185	1,127,114
Depreciation	5,798,412	6,088,650
Other	765,275	389,304
Total operating expenses	<u>74,778,865</u>	<u>89,547,375</u>
<b>Operating Loss</b>	(43,969,067)	(56,204,771)
<b>Nonoperating Revenues</b>		
State appropriations	31,680,550	33,062,633
Investment income	447,089	401,391
Interest on debt	(48,398)	(57,209)
Pell Grants	14,794,249	18,596,658
Net nonoperating revenues	<u>46,873,490</u>	<u>52,003,473</u>
<b>Gain (Loss) Before Other Revenues</b>	2,904,423	(4,201,298)
<b>Other Revenues</b>		
Capital appropriations	2,926,671	4,053,966
Capital grants	673,669	-
Total other revenues	<u>3,600,340</u>	<u>4,053,966</u>
<b>Increase (Decrease) in Net Position</b>	6,504,763	(147,332)
<b>Net Position</b>		
Beginning of year	(18,368,944)	(18,221,612)
End of year	<u>\$ (11,864,181)</u>	<u>\$ (18,368,944)</u>

See notes to Financial Statements.

# Owens State Community College

## Statements of Cash Flows

	Year Ended June 30	
	2016	2015
<b>Cash Flows from Operating Activities</b>		
Student tuition and fees	\$ 27,166,642	\$ 25,596,749
Grants - Federal, state, and local	3,190,549	2,815,026
Payments to employees, suppliers, students, and others	(74,312,649)	(79,420,150)
Auxiliary enterprises	2,465,659	4,705,365
Sales and services	485,541	(1,417,247)
Other receipts	404,135	307,407
Net cash used in operating activities	(40,600,123)	(47,412,850)
<b>Cash Flows from Noncapital Financing Activities</b>		
Pell grant	14,794,249	18,596,658
State appropriations	31,680,550	33,062,633
Agency transactions	(1,695,804)	1,993,781
Net cash provided by noncapital financing activities	44,778,995	53,653,072
<b>Cash Flows from Capital and Related Financing Activities</b>		
Principal payments on notes payable	(1,000,948)	(1,200,165)
Borrowing under a capital lease purchase	20,100	-
Capital appropriations and grants	2,926,671	2,820,166
Interest paid on notes payable	(48,398)	(57,209)
Purchases of capital assets	(4,288,650)	(3,229,509)
Net cash used in capital and related financing activities	(2,391,225)	(1,666,717)
<b>Cash Flows from Investing Activities</b>		
Interest on investments	447,089	4,030
Net change in investments	(2,750,296)	127,980
Net cash (used) provided by investing activities	(2,303,207)	132,010
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(515,560)	4,705,515
<b>Cash and Cash Equivalents - Beginning of year</b>	6,024,471	1,318,956
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 5,508,911</b>	<b>\$ 6,024,471</b>

(continued)

See notes to Financial Statements.

# Owens State Community College

## Statements of Cash Flows (Continued)

	Year Ended June 30	
	2016	2015
Reconciliation of operating loss to net cash from operating activities:		
Operating loss	\$ (43,969,067)	\$ (56,204,771)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	5,798,412	6,088,650
Changes in assets and liabilities:		
Receivables - Net	2,943,991	9,841,380
Deposits	22,005	-
Inventories	1,058,917	867,005
Prepaid expenses and deferred charges	745,655	1,012,833
Notes receivable - Net	7,000	7,500
Deferred outflows of resources	(2,146,154)	(387,256)
Accounts payable	(1,820,236)	3,379,379
Salaries, wages, and benefits payable	(517,565)	(669,078)
Net pension liability	1,715,814	(17,001,091)
Deferred inflows of resources	(2,192,328)	16,247,784
Unearned revenue	(2,246,567)	(10,595,185)
	<u>\$ (40,600,123)</u>	<u>\$ (47,412,850)</u>
Net cash used in operating activities		
Noncash capital and related financing activities:		
Donated capital assets	\$ 673,669	\$ -
Purchase of capital assets financed through accounts payable	119,941	1,233,800

See notes to Financial Statements.

# Owens State Community College

## Statements of Financial Position Discretely Presented Component Unit – Foundation

	June 30	
	2016	2015
<b>Assets</b>		
Cash and cash equivalents	\$ 281,298	\$ 488,949
Investments	3,162,841	3,068,527
Pledges receivable	73,804	104,488
Total assets	<u>\$ 3,517,943</u>	<u>\$ 3,661,964</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Due to Owens State Community College	\$ 10,223	\$ 29,242
Funds in custody (agency funds)	54,925	50,929
Note Payable	<u>18,393</u>	<u>25,893</u>
Total liabilities	83,541	106,064
<b>Net Assets</b>		
Unrestricted	231,979	347,891
Temporarily restricted	1,188,797	1,378,061
Permanently restricted	<u>2,013,626</u>	<u>1,829,948</u>
Total net assets	<u>3,434,402</u>	<u>3,555,900</u>
Total liabilities and net assets	<u>\$ 3,517,943</u>	<u>\$ 3,661,964</u>

See notes to Financial Statements.

# Owens State Community College

## Statements of Activities and Changes in Net Assets Discretely Presented Component Unit – Foundation

	June 30	
	2016	2015
<b>Revenue and Support</b>		
Donations received	\$ 499,857	\$ 277,337
Investment income:		
Interest and dividend income	76,255	68,522
Unrealized loss on investments	(198,295)	(96,123)
Realized gain on investments	35,148	122,581
Bad debt loss	(8,065)	-
Grant revenue	-	40,000
	<hr/>	<hr/>
Total revenue and support	404,900	412,317
<b>Expenses</b>		
Program services:		
Scholarships	173,974	186,981
Outside grants expense	115,170	40,000
Other program services	193,109	90,545
Total program services	<hr/> 482,253	<hr/> 317,526
Management and general	30,746	17,537
Fund-raising	<hr/> 13,399	<hr/> 8,242
	<hr/>	<hr/>
Total expenses	526,398	343,305
	<hr/>	<hr/>
<b>Change in Net Assets</b>	(121,498)	69,012
<b>Net Assets - Beginning of year</b>	<hr/> 3,555,900	<hr/> 3,486,888
<b>Net Assets - End of year</b>	<hr/> <b>\$ 3,434,402</b>	<hr/> <b>\$ 3,555,900</b>

See notes to Financial Statements.

# Owens State Community College

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## Notes to Financial Statements June 30, 2016 and 2015

### **NOTE 1 – ORGANIZATION, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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#### **ORGANIZATION**

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Owens State Community College (the “College”) was created pursuant to Section 3357 of the Ohio Revised Code. In November 1994, the Ohio Department of Higher Education approved changing the status of the College from a technical college to a community college, pursuant to Section 3358 of the Ohio Revised Code. The College’s purpose is to provide instruction in post-secondary education programs to residents of the College’s district. Students who satisfactorily complete such programs receive associate degrees or certificates in liberal arts and sciences, technical, or professional fields. The College is a component unit of the State of Ohio and is discretely presented in the State of Ohio’s Comprehensive Annual Financial Report.

The College is classified as a state instrumentality under Internal Revenue Code Section 115, and is also classified as a charitable organization under Internal Revenue Code Section 501(c)(3), and is therefore exempt from federal income taxes. Certain activities of the College may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 through 514.

The College is governed by a board of trustees, who is responsible for oversight of academic programs, budgets, general administration, and employment of faculty and staff. The College is currently governed by a nine voting member board of trustees. The trustees are appointed by the governor with the advice and consent of the State Senate for overlapping six-year terms.

#### **BASIS OF PRESENTATION**

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The financial statements have been prepared in accordance with accounting principles generally accepted in the United States as prescribed by the GASB. The College is a public institution engaged in business-type activities. In accordance with GASB Statement No. 35, Basic Financial Statements - and Management’s Discussion and Analysis - for Public Colleges and Universities, the College presents a management’s discussion and analysis; statement of net position; statement of revenue, expenses, and changes in net position; statement of cash flows; and notes to the financial statements.

In the determination of whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted nets assets are available, it is the College’s practice to use restricted first.

The College has determined that the Owens State Community College Foundation is a component unit of the College. The financial activity of the Foundation is included through a discrete presentation as part of the College’s financial statements. The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards. 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 College’s financial reporting entity for these differences.



# Owens State Community College

## Notes to Financial Statements June 30, 2016 and 2015

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The Foundation is a legally separate, tax-exempt entity that acts primarily as a fundraising organization to supplement the resources available to the College in support of its programs. The Foundation transferred \$482,253 and \$312,526 during fiscal years 2016 and 2015, respectively, to the College for both restricted and unrestricted purposes in support of its programs.

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### **SIGNIFICANT ACCOUNTING POLICIES**

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#### **Cash and Cash Equivalents**

For the purpose of the statements of cash flows, the College considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents include cash and money market funds, stated at cost, which approximates fair value. All certificates of deposit are included in investments on the statement of net position.

#### **Investments**

Investments include publicly traded securities reported at fair market value as of the end of the fiscal year; any change in the unrealized gain (loss) during the fiscal year is included in investment income in the statement of revenue, expenses, and changes in net position. Fair value is determined by market quotations. Donated investments are recorded at the fair market value at the time received.

#### **Accounts Receivable**

Accounts receivable are for transactions relating to tuition and fees, auxiliary enterprise sales, grants and contracts, and miscellaneous sales and services. Accounts receivable are recorded net of contractual allowances and allowances for uncollectible accounts based on historical analysis.

#### **Inventories**

Inventories are stated at the lower of cost or market (net realizable value) using the first-in, first-out (FIFO) method.

#### **Capital Assets**

Capital assets are stated at cost or fair value at date of donation in the case of gifts. When capital assets are sold or otherwise disposed of, the carrying value of such assets is removed from the asset accounts, along with the related accumulated depreciation. Capital assets, with the exception of land, are depreciated on the straight-line method over the following estimated useful lives:

Land Improvements	5 to 20 years
Buildings	40 years
Building Improvements	10 to 20 years
Equipment	3 to 10 years

Assets are capitalized with a cost of \$50,000 or greater for buildings and land improvement, \$20,000 or greater for building improvements and infrastructure and \$5,000 or greater for library books and equipment.

# Owens State Community College

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## Notes to Financial Statements June 30, 2016 and 2015

### Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. For the College, deferred outflows of resources are reported on the statement of net position for amounts related to pension as explained in Note 8.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the College, deferred inflows of resources are related to pension and are reported on the statement of net position. (See Note 8)

### 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 pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

### Unearned Revenue

Unearned revenue includes tuition and fees for summer and fall terms recorded in the current fiscal year but related to the subsequent accounting period, and related expenses are shown as prepaid expenses in the statement of net position and will be recognized in the following year. Additionally, unearned revenue includes amounts received from grant and contract sponsors that have not yet been earned.

### Net Position

GASB Statement No. 34, as amended by GASB Statement No. 63, 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:** Includes capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement in those assets.

**Restricted:** Assets subject to externally imposed constraints so that they may be maintained permanently by the College, or net position whose use by the College is subject to externally imposed constraints that can be fulfilled by actions of the College pursuant to those constraints or that expire by the passage of time. Restricted net position is classified further as nonexpendable and expendable. Nonexpendable restricted net position is available for investment purposes only and cannot be expended. Expendable restricted net position is available for expenditure by the College, but must be spent for purposes as determined by donors or external entities that have placed time or purpose restrictions on the use of the assets.

# Owens State Community College

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## Notes to Financial Statements June 30, 2016 and 2015

Unrestricted: Assets available to the College for any lawful purpose of the institution. 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. The College has committed unrestricted net position to provide for identified future needs, such as debt service, contractual obligations, capital outlay, academic programming, and postemployment benefits.

### **Operating and Nonoperating Revenue**

The College's policy for defining operating activities as reported on the statement of revenue, expenses, and changes in net position is to report those activities that generally result from exchange transactions, such as payments received for providing services and payments made for services or goods received. Nearly all of the College's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenue as defined by GASB Statement No. 34, including State appropriations, investment income and Pell grants. Restricted and unrestricted resources are spent and tracked at the discretion of the College's department within the guidelines of donor restrictions, if any.

### **Compensated Absences**

College employees earn vacation and sick leave based, in part, on length of service. Vacation pay is fully vested when earned. Upon separation from service, employees are paid accumulated vacation and sick pay based upon the nature of separation (death, retirement, or termination). Certain limitations have been placed on the hours of vacation and sick leave that employees may accumulate and carry over for payment at termination, retirement, or death. Unused hours exceeding their limitation are forfeited. The liability and expense incurred are recorded at year-end as long-term and short-term liabilities in the statement of net position, and as a component of operating expense in the statement of revenue, expenses, and changes in net position.

### **State Subsidies**

The College receives student-based subsidy and other subsidies from the State. These subsidies are determined biennially and released annually based upon allocations determined by the Ohio General Assembly and the Ohio Department of Higher Education.

In addition to subsidies, the State provides capital appropriations for construction of major plant facilities on the campus. The financing of construction is obtained by the State through issuance of State revenue bonds. State funds are pledged for the repayment of the revenue bonds. In the event these funds are insufficient to retire the revenue bonds, a pledge exists to assess a special student fee to students of State-assisted institutions of higher education. As a result of this financing arrangement, the outstanding debt relating to the revenue bonds is not included in the College's statement of net position. State appropriations are recognized when received. Restricted funds are recognized as revenue only to the extent expended.

# Owens State Community College

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## Notes to Financial Statements June 30, 2016 and 2015

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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 and expenses during the reporting period. Actual results could differ from those estimates.

### Student Tuition and Fees

Student tuition and fee revenue is reported net of scholarship allowances in the statement of revenue, expenses, and changes in net position.

### Auxiliary Revenue

Auxiliary revenue represents revenue generated by the bookstore, dining services and other departmental activities that provide services to the student body, faculty and staff.

### New Accounting Standards Adopted

For the year ended June 30, 2016, the College implemented the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*; GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain provisions of GASB Statements 67 and 68*; and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB Statement No. 72 establish standards for measuring fair value and applying fair value to certain investments and disclosures related to all fair value measurements. GASB Statement No. 73 amended GASB Statement No. 68 requirements related to note disclosures for pension related required supplementary information and payables to defined benefit pension plans. GASB Statement No. 76 establishes the hierarchy of sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with generally accepted accounting principles.

### Upcoming Accounting Pronouncements

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the College to recognize on the face of the financial statements its proportionate share of the net OPEB liability related to its participation in the School Employees Retirement System (SERS) or State Teachers Retirement System (STRS). The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The College is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the College's financial statements for the year ending June 30, 2018.

# Owens State Community College

## Notes to Financial Statements June 30, 2016 and 2015

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### NOTE 2 – CASH AND CASH EQUIVALENTS

Ohio law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the College places deposits must pledge as collateral eligible securities of aggregate market value equal to the amount of deposits not insured by the Federal Depository Insurance Corporation (FDIC). Further, Ohio law allows for pledges of pooled collateral in amounts that exceed the secured deposits by at least five percent. Collateral that may be pledged is limited to obligations of the following entities: the United States and its agencies, the State of Ohio, the Ohio Student Loan Commission and any legally constituted taxing subdivision within the State of Ohio.

The College's investment policies are governed by state statutes that authorize the College to invest in obligations of the U.S. Treasury, agencies and instrumentalities; bonds and other State of Ohio obligations; certificates of deposit; and U.S. Government money market funds and repurchase agreements. Such repurchase agreements must be acquired from qualifying Ohio financial institutions, or from registered brokers/dealers.

Deposits: Custodial credit risk is the risk that in the event of a failure of a depository financial institution to fulfill its obligations, the College will not be able to recover the value of deposits, investments or collateral securities in the possession of an outside party. The College's policy for deposits is that any balance not covered by depository insurance will be collateralized by the financial institution with pledged securities.

At June 30, 2016 and 2015, the carrying amount of the College's cash and cash equivalents for all funds is \$5,508,911 and \$6,024,471, respectively, and the bank balances were \$8,209,826 and \$6,904,490, respectively. The differences in carrying amount and bank balances are caused by outstanding checks and deposits in transit. Of the June 30, 2016 bank balances, \$250,000 is covered by federal deposit insurance. The remaining balances of cash and cash equivalents are collateralized by the depository institution per Ohio Revised Code 135.181B, which requires that the total market value of the securities so pledged is at least equal to 105 percent of the total amount of all public deposits.

### NOTE 3 – INVESTMENTS

Investments are stated at fair value of \$2,750,197 at June 30, 2016 and are invested in negotiable certificates of deposit covered by federal depository insurance. The negotiable certificates of deposit mature within one year. The college did not have any certificates of deposit at June 30, 2015.

Also included in investments is \$32,905 and \$32,806 at June 30, 2016 and 2015, respectively, in 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 Securities and Exchange Commission as an investment company but does operate in a manner consistent with Rule 2a-7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price.

# Owens State Community College

## Notes to Financial Statements June 30, 2016 and 2015

The Foundation holds certain investments for the benefit of the College. Investments valued at market value at the Foundation by major security type at June 30, 2016 and 2015 are as follows:

	2016	2015
Bond mutual fund	\$ 1,015,218	\$ 728,115
Equity mutual fund	651,933	691,195
Common stock	1,495,690	1,586,764
Other	-	62,453
Total	<u>\$ 3,162,841</u>	<u>\$ 3,068,527</u>

### NOTE 4 – FAIR VALUE MEASUREMENT

The College's investments measured and reported at fair value are classified according to the following hierarchy:

- Level 1 – Investments reflect prices quoted in active markets.
- Level 2 – Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active.
- Level 3 – Investments reflect prices based upon unobservable sources.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk.

Debt, equities, and investment derivatives classified in Level 1 of the fair value hierarchy are valued directly from a predetermined primary external pricing vendor. Assets classified in Level 2 are subject to pricing by an alternative pricing source due to lack of information available by the primary vendor. Mortgage and asset backed securities classified in Level 3, due to lack of an independent pricing source, are valued using an internal fair value as provided by the investment manager.

Description	Total	Identical Assets (Level 1)	Observable Inputs (Level 2)	Inputs (Level 3)
<u>June 30, 2016</u>				
Assets:				
Negotiable certificates of deposit	\$ 2,750,197	2,750,197	-	-

The College did not have any negotiable certificates of deposits for the year ending, June 30, 2015.

Investments on the statement of net position at June 30, 2016 and 2015 include investments in STAR Ohio of \$32,905 and \$32,806, 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.

# Owens State Community College

## Notes to Financial Statements June 30, 2016 and 2015

### NOTE 5 – ACCOUNTS RECEIVABLE

The composition of accounts receivable at June 30, 2016 and 2015 is summarized as follows:

	2016	2015
Student receivables for fees and auxiliary services	\$ 11,738,428	\$ 13,427,774
Allowance for doubtful accounts	(1,600,000)	(1,887,604)
Grants - federal, state and local	416,804	826,154
Capital appropriations	119,940	1,233,800
Interest receivable	-	20
	<u>\$ 10,675,172</u>	<u>\$ 13,600,144</u>

### NOTE 6 – CAPITAL ASSETS

The following is a summary of changes in the capital assets and related accumulated depreciation during the 2016 and 2015 fiscal years:

	Balance June 30, 2015	Additions	Retirements/ Transfers	Balance June 30, 2016
Nondepreciated capital assets:				
Land	\$ 10,744,583	-	-	\$ 10,744,583
Construction in progress	3,121,967	1,211,984	(2,947,923)	1,386,028
Total nondepreciated capital assets	13,866,550	1,211,984	(2,947,923)	12,130,611
Depreciable capital assets:				
Land improvements	28,196,831	-	-	28,196,831
Buildings and improvements	111,173,134	1,099,483	3,121,967	115,394,584
Equipment	22,174,798	1,539,795	(200,544)	23,514,049
Total other capital assets	161,544,763	2,639,278	2,921,423	167,105,464
Less: Accumulated Depreciation	(88,944,992)	(5,798,412)	23,698	(94,719,706)
Total Depreciable Assets, net	72,599,771	(3,159,134)	2,945,121	72,385,758
Capital Assets, net	<u>\$ 86,466,321</u>	<u>(1,947,150)</u>	<u>(2,802)</u>	<u>\$ 84,516,369</u>

The College has active construction projects resulting in total commitments to vendors of approximately \$628,426 at June 30, 2016.

# Owens State Community College

## Notes to Financial Statements June 30, 2016 and 2015

	Balance June 30, 2014	Additions	Retirements/ Transfers	Balance June 30, 2015
Nondepreciated capital assets:				
Land	\$ 10,744,583	-	-	\$ 10,744,583
Construction in progress	1,700	3,121,967	(1,700)	3,121,967
Total nondepreciated capital assets	10,746,283	3,121,967	(1,700)	13,866,550
Depreciable capital assets:				
Land improvements	28,196,831	-	-	28,196,831
Buildings and improvements	110,279,313	981,102	(87,281)	111,173,134
Equipment	28,927,675	361,940	(7,114,817)	22,174,798
Total other capital assets	167,403,819	1,343,042	(7,202,098)	161,544,763
Less: Accumulated Depreciation	(90,060,140)	(6,088,650)	7,203,798	(88,944,992)
Total Depreciable Assets, net	77,343,679	(4,745,608)	1,700	72,599,771
Capital Assets, net	\$ 88,089,962	(1,623,641)	-	\$ 86,466,321

The College has active construction projects resulting in total commitments to vendors of approximately \$1,246,400 at June 30, 2015.

### NOTE 7 – DEBT

In November 2012, the College entered into a lease agreement for Storage Area Network (SANS) equipment totaling \$1,077,095 with an interest rate of zero percent and a maturity date of November 2017.

In February 2012, the College entered into a lease agreement for equipment totaling \$51,696 with an interest rate of 8.4 percent. This lease agreement matured August 2015.

In May 2016, the College entered into a lease agreement for bus totaling \$20,100 with an interest rate of 7.2 percent and a maturity date of May 2021.

In March 2010, the College entered into a loan agreement with the Ohio Air Quality Development Authority (Authority) totaling \$6,250,000 to finance energy conservation measures, facility improvement measures and operational efficiency improvements. The Authority financed the loan through Series A and B general receipts bonds for \$3,125,000 each, which bear interest rates of 3.48 percent and 6.024 percent, respectively, and are passed onto the College through the loan. Series A matured during 2015. Series B will mature on March 15, 2019.



# Owens State Community College

## Notes to Financial Statements June 30, 2016 and 2015

Long-term liabilities consist of the following for the year ended June 30, 2016 and 2015:

	Balance			Amount		
	June 30, 2015	Increases	Decreases	June 30, 2016	Due Within	One Year
Compensated absences	\$ 2,320,859	\$ -	\$ 184,466	\$ 2,136,393	\$	106,820
Notes and leases payable	3,207,962	20,100	1,000,948	2,227,114		1,015,060
Net pension liability	91,358,163	1,715,814	-	93,073,977		-
Non-federal student loans	147,324	-	-	147,324		-
	<u>\$ 97,034,308</u>	<u>\$ 1,735,914</u>	<u>\$ 1,185,414</u>	<u>\$ 97,584,808</u>	<u>\$</u>	<u>1,121,880</u>

	Balance			Amount		
	June 30, 2014	Increases	Decreases	June 30, 2015	Due Within	One Year
Compensated absences	\$ 2,488,863	\$ -	\$ 168,004	\$ 2,320,859	\$	116,041
Notes and leases payable	4,408,127	-	1,200,165	3,207,962		1,000,737
Net pension liability	108,359,254	-	17,001,091	91,358,163		-
Non-federal student loans	147,324	-	-	147,324		-
	<u>\$ 115,403,568</u>	<u>\$ -</u>	<u>\$ 18,369,260</u>	<u>\$ 97,034,308</u>	<u>\$</u>	<u>1,116,778</u>

Schedule of maturities for the note payable is as follows:

	Principal	Interest	Total
2017	\$ 797,000	\$ 33,555	\$ 830,555
2018	813,000	17,935	830,935
2019	310,000	4,534	314,534
Total	<u>\$ 1,920,000</u>	<u>\$ 56,024</u>	<u>\$ 1,976,024</u>

Schedule of maturities for the lease payables are as follows:

	Principal	Interest	Total
2017	\$ 218,060	\$ 1,364	\$ 219,424
2018	74,650	1,161	75,811
2019	3,062	942	4,004
2020	3,297	707	4,004
2021	8,045	426	8,471
Total	<u>\$ 307,114</u>	<u>\$ 4,600</u>	<u>\$ 311,714</u>

Assets under capital lease are recorded in capital assets with costs of \$1,125,195 and \$1,133,791 and accumulated depreciation of \$545,984 and \$425,106 at June 30, 2016 and 2015, respectively.

# Owens State Community College

## Notes to Financial Statements June 30, 2016 and 2015

### NOTE 8 – PENSION PLANS

College employees are covered by one of two retirement systems. The College faculty is covered by the State Teachers Retirement System of Ohio (STRS). Other employees are covered by the State Employees Retirement System of Ohio (SERS). These plans are statewide, multi-employer, cost sharing defined benefit plans. Employees may opt out of STRS or SERS and participate in the alternative retirement plan (ARP) if they meet certain eligibility requirements.

#### Net Pension Liability

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the College's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the College's obligation for this liability to annually required payments. The College's cannot control benefit terms or the manner in which pensions are financed; however, the College's does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in salaries, wages and fringe benefits payable.

#### Plan Description – School Employees Retirement System (SERS)

Plan Description – College non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

# Owens State Community College

## Notes to Financial Statements June 30, 2016 and 2015

Age and service requirements for retirement were the same for fiscal years 2016 and 2015 and are as follows:

	Eligible to Retire on or before August 1, 2017*	Eligible to Retire on or after August 1, 2017*
Full benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

\* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the College is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the allocation to pension, death benefits, and Medicare B was 14.00 percent. For fiscal year 2016, there was no employer contribution rate allocated to the Health Care Fund. For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. For 2015, the remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The College's contractually required contribution to SERS was \$1,941,088 and \$2,200,311 for fiscal years 2016 and 2015, respectively. Of this amount \$73,567 and \$258,598 is reported in salaries, wages and fringe benefits payable for fiscal years 2016 and 2015, respectively.

### Plan Description - State Teachers Retirement System (STRS)

Plan Description – College licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at [www.strsoh.org](http://www.strsoh.org).

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined

# Owens State Community College

## Notes to Financial Statements June 30, 2016 and 2015

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Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2% of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by 2% of the original base benefit. For members retiring August 1, 2013, or later, the first 2% is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with 5 years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5% of the 14% employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5% of the 14% employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with 5 years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased 1% July 1, 2014, and will be increased 1% each year until it reaches 14% on July 1, 2016. For fiscal years ended June 30, 2016 and 2015, plan members were required to contribute 13% and 12% of their annual covered salary, respectively. For both fiscal years, the College was required to contribute 14% and the entire 14% was the portion used to fund pension obligations. The fiscal year 2016 and 2015 contribution rates were equal to the statutory maximum rates.

# Owens State Community College

## Notes to Financial Statements June 30, 2016 and 2015

The College's contractually required contribution to STRS was \$3,201,784 and \$3,425,522 for fiscal years 2016 and 2015, respectively. Of this amount \$111,049 and \$78,167 is reported in salaries, wages and fringe benefits payable for fiscal years 2016 and 2015, respectively.

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

The net pension liability reported at June 30, 2016 and 2015 was measured as of June 30, 2015 and June 30, 2014, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The College's proportion of the net pension liability was based on the College's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the College's proportionate share, pension expense and deferred inflows and outflows for fiscal years 2016 and 2015:

<u>Fiscal Year 2016</u>	SERS	STRS	Total
<b>Proportionate Share of net Pension Liability</b>	\$ 28,695,893	\$ 64,378,084	\$ 93,073,977
<b>Proportionate Share of net Pension Liability</b>	0.5028988%	0.23294102%	
<b>Pension Expense</b>	\$ 1,498,001	\$ 1,022,203	\$ 2,520,204
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$ 462,056	\$ 2,934,828	\$ 3,396,884
Differences between actual and proportionate share of contributions	61,181	18,426	79,607
College contributions subsequent to the measurement date	1,941,088	3,201,784	5,142,872
	<u>\$ 2,464,325</u>	<u>\$ 6,155,038</u>	<u>\$ 8,619,363</u>
<b>Deferred Inflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	\$ 950,789	\$ 4,630,002	\$ 5,580,791
Change in the College's proportionate share	2,929,406	5,545,259	8,474,665
	<u>\$ 3,880,195</u>	<u>\$ 10,175,261</u>	<u>\$ 14,055,456</u>

# Owens State Community College

## Notes to Financial Statements June 30, 2016 and 2015

<u>Fiscal Year 2015</u>	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Proportionate Share of net Pension Liability</b>	\$ 28,801,523	\$ 62,556,640	\$ 91,358,163
<b>Proportionate Share of net Pension Expense</b>	0.5690940%	0.25718640%	
	\$ 1,693,766	\$ 2,890,059	\$ 4,583,825
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$ 245,132	\$ 602,244	\$ 847,376
College contributions subsequent to the measurement date	2,200,311	3,425,522	5,625,833
	<u>\$ 2,445,443</u>	<u>\$ 4,027,766</u>	<u>\$ 6,473,209</u>
<b>Deferred Inflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	<u>\$ 4,674,568</u>	<u>\$ 11,573,216</u>	<u>\$ 16,247,784</u>

\$5,142,872 reported as deferred outflows of resources related to pension at June 30, 2016 resulting from College contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2017	\$ (1,261,647)	\$ (2,426,546)	\$ (3,688,193)
2018	(1,261,647)	(2,426,546)	(3,688,193)
2019	(1,263,839)	(2,426,546)	(3,690,385)
2020	430,175	57,631	487,806
	<u>\$ (3,356,958)</u>	<u>\$ (7,222,007)</u>	<u>\$ (10,578,965)</u>

### Actuarial Assumptions – SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

# Owens State Community College

## Notes to Financial Statements June 30, 2016 and 2015

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the two most recent actuarial valuations, prepared as of June 30, 2015 and 2014, were the same for both fiscal years and are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc Cola	3.00 percent
Investment Rate of Return	7.75 percent net of investment expenses, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

The target allocation and best estimates of arithmetic real rates of return for each major assets class were the same for both fiscal years and are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Cash	1.00%	0.00%
US Stocks	22.50%	5.00%
Non-US Stocks	22.50%	5.50%
Fixed Income	19.00%	1.50%
Private Equity	10.00%	10.00%
Real Assets	10.00%	5.00%
Multi-Assets Strategies	15.00%	7.50%
Total	<u>100.00%</u>	

# Owens State Community College

## Notes to Financial Statements June 30, 2016 and 2015

**Discount Rate** The total pension liability was calculated using the discount rate of 7.75 percent for both fiscal years. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the College's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate for both fiscal years.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
<u>Fiscal Year 2016</u>			
College's proportionate share of the net pension liability	\$ 39,790,892	\$ 28,695,893	\$ 19,352,989
<u>Fiscal Year 2015</u>			
College's proportionate share of the net pension liability	\$ 41,091,216	\$ 28,801,523	\$ 18,464,830

### Actuarial Assumptions – STRS

The total pension liability in the June 30, 2015 and 2014 actuarial valuations were determined using the following actuarial assumptions for both fiscal years and applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.75 percent, net of investment expenses
Cost -of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

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

Actuarial assumptions used in both the June 30, 2015 and June 30, 2014 valuations were based on the results of an actuarial experience study, effective July 1, 2012.



# Owens State Community College

## Notes to Financial Statements June 30, 2016 and 2015

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

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Domestic Equity	31.00%	8.00%
International Equity	26.00%	7.85%
Alternatives	14.00%	8.00%
Fixed Income	18.00%	3.75%
Real Estate	10.00%	6.75%
Liquidity Reserves	1.00%	3.00%
Total	100.00%	

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 for both fiscal years. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015 and 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015 and 2014.

**Sensitivity of the College's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the College's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent for both fiscal years, as well as what the College's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
<u>Fiscal Year 2016</u>			
College's proportionate share of the net pension liability	\$ 89,426,008	\$ 64,378,084	\$ 43,196,320
<u>Fiscal Year 2015</u>			
College's proportionate share of the net pension liability	\$ 89,556,651	\$ 62,556,640	\$ 39,723,717

# Owens State Community College

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## Notes to Financial Statements June 30, 2016 and 2015

### **Alternative Retirement Plan**

Ohio Amended Substitute House Bill 586 (Ohio Revised Code 3305.2) became effective March 31, 1998, authorizing an alternative retirement plan (ARP) for academic and administrative College employees of public institutions of higher education who are currently covered by the State Teachers Retirement System or Public Employees Retirement System. The College board of trustees adopted such a plan effective April 1999.

Eligible employees (those who are full-time and salaried) have 120 days from their date of hire to make an irrevocable election to participate in the alternate retirement plan. Under this plan, employees who would have otherwise been required to be in STRS and who elect to participate in the alternate retirement plan must contribute their share of retirement contributions (10 percent STRS) to one of eight private providers approved by the State Department of Insurance. For employees who elect an ARP, employers are required to remit employer contributions to STRS Ohio at a rate of 3.5 percent. The employer contribution is the lower of a rate determined by an independent actuarial study or the portion of the STRS Ohio DC Plan employer contribution rate that is allocated to the defined benefit unfunded liability. The College plan provides these employees with immediate plan vesting.

The ARP is a defined contribution plan under IRS Section 401(a). The College's total employer contributions to the ARP for the years ended June 30, 2016, 2015 and 2014 were \$201,743, \$199,308, and \$212,729, respectively.

### **NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS**

In addition to the pension benefits described in Note 8, the Ohio Revised Code provides the statutory authority requiring the College to fund postretirement health care through employer contributions to SERS and STRS.

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#### **State Employees Retirement System of Ohio**

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In addition to a cost-sharing multiple-employer defined benefit pension plan the School Employees Retirement System of Ohio (SERS) administers a postemployment benefit plan.

#### **Health Care Plan**

Sections 3309.375 and 3309.69 of the Ohio Revised Code permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The Ohio Revised Code provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plan.

# Owens State Community College

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## Notes to Financial Statements June 30, 2016 and 2015

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder for the employer 14% contribution to the Health Care Fund in accordance with the funding policy. For the fiscal year ended June 30, 2016, the health care allocation is 0.00%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. By statute, no employer shall pay a health care surcharge greater than 2.0% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for health care surcharge. For fiscal year 2016, this amount was \$23,000. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. For fiscal year 2016, the College's surcharge obligation was \$78,754.

The College's contributions assigned to health care, including surcharge, for the years ended June 30, 2016, 2015, and 2014 were \$78,754, \$90,203 and \$95,770, respectively.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports of SERS' Health Care plan is included in its Comprehensive Annual Financial Report. The report can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources. SERS administers two postemployment benefit plans.

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### State Teachers Retirement System of Ohio

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#### Plan Description

The College participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

#### Funding Policy

Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2016, STRS did not allocate any employer contributions to post-employment health care. The College's contributions for health care for the fiscal year ended June 30, 2015 and 2014 was \$244,662 and \$263,855, respectively.

# Owens State Community College

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## Notes to Financial Statements June 30, 2016 and 2015

### NOTE 10 - RELATED ORGANIZATION

The College is affiliated with the Owens State Community College Foundation (the "Foundation"), which was established in June 1996 by the trustees of the College through signing a resolution that transferred all assets, liabilities, principal, and income from the Michael J. Owens Technical College Charitable Trust (the "Trust") to the Foundation. The Foundation has been determined to be exempt from federal income taxes under IRC Section 501(c)(3). The Foundation also reimburses the College for certain educational expenses.

Total assets of the Foundation as of June 30, 2016 and 2015 were \$3,517,943 and \$3,661,969, respectively. The College received \$482,253 in 2016 and \$312,526 from the Foundation in 2016 and 2015, respectively. The Foundation owed the College \$10,223 and \$29,242 as of June 30, 2016 and 2015, respectively. Complete financial statements for the Foundation can be obtained from Owens State Community College, 30335 Oregon Road, Perrysburg, OH 43551.

The following is a summary of the Foundation's significant accounting and reporting policies presented to assist the reader in interpreting the financial statements and other data in this report.

Investments: The following tables represent information about the Foundation's assets measured at fair value on a recurring basis at June 30, 2016 and 2015 and the valuation techniques used by the Foundation to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Foundation has the ability to access. Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. 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 Foundation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

# Owens State Community College

## Notes to Financial Statements June 30, 2016 and 2015

Disclosures concerning assets measured at fair value are as follows:

### Fair Value Measurements at June 30, 2016

Description	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, 2015
Mutual funds:				
Equity investments	\$ 651,934	\$ -	\$ -	\$ 651,934
Fixed-income investments	<u>1,015,218</u>	-	-	<u>1,015,218</u>
Total mutual funds	1,667,152	-	-	1,667,152
Common Stock:				
Consumer discretionary	232,527	-	-	232,527
Consumer staples	130,601	-	-	130,601
Energy/Utilities	91,293	-	-	91,293
Financial	207,161	-	-	207,161
Health care	253,093	-	-	253,093
Industrials	95,886	-	-	95,886
Materials	44,739	-	-	44,739
Technology	362,413	-	-	362,413
Telecommunication services	<u>77,977</u>	-	-	<u>77,977</u>
Total common stock	1,495,690	-	-	1,495,690
Real Assets - MLP and other	-	-	-	-
Money market mutual funds	134,460	-	-	134,460

# Owens State Community College

## Notes to Financial Statements June 30, 2016 and 2015

### Fair Value Measurements at June 30, 2015

Description	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, 2015
Mutual funds:				
Equity investments	\$ 691,195	\$ -	\$ -	\$ 691,195
Fixed-income investments	<u>728,115</u>	-	-	<u>728,115</u>
Total mutual funds	1,419,310	-	-	1,419,310
Common Stock:				
Consumer discretionary	229,570	-	-	229,570
Consumer staples	31,384	-	-	31,384
Energy/Utilities	195,909	-	-	195,909
Financial	256,786	-	-	256,786
Health care	343,906	-	-	343,906
Industrials	97,938	-	-	97,938
Materials	46,618	-	-	46,618
Technology	312,955	-	-	312,955
Telecommunication services	<u>71,698</u>	-	-	<u>71,698</u>
Total common stock	1,586,764	-	-	1,586,764
Real Assets - MLP and other	62,453	-	-	62,453
Money market mutual funds	195,750	-	-	195,750

The Foundation's policy is to recognize transfers between levels of the fair value hierarchy as of the end of the reporting period. For the year ended June 30, 2016 and 2015, there were no transfers between levels of the fair value hierarchy.

Restrictions and Limitations on Net Asset Balances: The Foundation's temporarily restricted net position are available for the following purposes:

Gifts and other donations available for:	2016	2015
Library	\$ 12,809	\$ 12,809
Equipment and other program expenses	499,528	525,492
Scholarships	<u>676,460</u>	<u>839,760</u>
Total gifts and other donations	<u>\$ 1,188,797</u>	<u>\$ 1,378,061</u>

Foundation net position were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by the donors as follows:

	2016	2015
Library	\$ 500	\$ -
Equipment and other program expenses	184,160	64,407
Scholarships	<u>160,859</u>	<u>172,337</u>
Total	<u>\$ 345,519</u>	<u>\$ 236,744</u>

# Owens State Community College

## Notes to Financial Statements June 30, 2016 and 2015

The Foundation's permanently restricted net position consist of endowment funds. In certain cases, the donors of these funds have restricted the use of the income from such funds for scholarships. These expenses are reflected in the appropriate program services category on the statement of activities and changes in net position. Permanently restricted net position are available for the following purposes:

	2016	2015
Equipment and other program expenses	\$ 452,213	\$ 343,286
Scholarships	1,561,413	1,486,662
Total	<u>\$ 2,013,626</u>	<u>\$ 1,829,948</u>

Donor and Board-restricted Endowments: the board of directors to function as endowments. Net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The board of directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the historical value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted new assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time of accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Foundation and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation

# Owens State Community College

## Notes to Financial Statements June 30, 2016 and 2015

### Endowment Net Asset Composition by Type of Fund as of June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment	\$ -	\$ 606,530	\$ 2,013,626	\$ 2,620,156
(Quasi) Endowment	<u>20,405</u>	<u>-</u>	<u>-</u>	<u>20,405</u>
Total funds	<u>\$ 20,405</u>	<u>\$ 606,530</u>	<u>\$ 2,013,626</u>	<u>\$ 2,640,561</u>

### Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of the year	\$ 21,114	\$ 794,393	\$ 1,829,948	\$ 2,645,455
Investment return:				
Investment income	725	89,212	898	90,835
Net appreciation	<u>(1,434)</u>	<u>(170,927)</u>	<u>(1,131)</u>	<u>(173,492)</u>
Total investment return	(709)	(81,715)	(233)	(82,657)
Contributions	-	500	191,976	192,476
Appropriation of endowment assets for expenditures	-	(76,465)	-	(76,465)
Administrative fees	-	(9,498)	-	(9,498)
Other changes -				
Bad debt loss				
Transfers to other	-	-	(8,065)	(8,065)
temporarily restricted funds	<u>-</u>	<u>(20,685)</u>	<u>-</u>	<u>(20,685)</u>
Endowment net assets - End of the year	<u>\$ 20,405</u>	<u>\$ 606,530</u>	<u>\$ 2,013,626</u>	<u>\$ 2,640,561</u>



# Owens State Community College

## Notes to Financial Statements June 30, 2016 and 2015

### Endowment Net Asset Composition by Type of Fund as of June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment	\$ -	\$ 794,393	\$ 1,829,948	\$ 2,624,341
(Quasi) Endowment	<u>21,114</u>	<u>-</u>	<u>-</u>	<u>21,114</u>
Total funds	<u>\$ 21,114</u>	<u>\$ 794,393</u>	<u>\$ 1,829,948</u>	<u>\$ 2,645,455</u>

### Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets -				
Beginning of the year	\$ 20,864	\$ 807,339	\$ 1,721,890	\$ 2,550,093
Investment return:				
Investment income	1,313	153,219	2,069	156,601
Net appreciation	<u>(733)</u>	<u>(70,812)</u>	<u>(2,845)</u>	<u>(74,390)</u>
Total investment return	580	82,407	(776)	82,211
Contributions	-	216	108,834	109,050
Appropriation of endowment assets for expenditures	(330)	(67,577)	-	(67,907)
Administrative fees	-	(7,702)	-	(7,702)
Other changes -				
Transfers to other temporarily restricted funds	<u>-</u>	<u>(20,290)</u>	<u>-</u>	<u>(20,290)</u>
Endowment net assets -				
End of the year	<u>\$ 21,114</u>	<u>\$ 794,393</u>	<u>\$ 1,829,948</u>	<u>\$ 2,645,455</u>

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

# Owens State Community College

## Notes to Financial Statements June 30, 2016 and 2015

The Foundation's spending policy stipulates that 3 percent to 6 percent of a three-year moving average of the value of the endowment is available to spend and the remaining income is to be reinvested. If an investment loss is realized, the loss is allocated entirely as currently expendable. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of CPI annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

### NOTE 11 - RISK MANAGEMENT

During the normal course of operations, the College has become a defendant in various legal 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 legal counsel and College management, the disposition of all pending litigation will not have a material adverse effect on the financial condition of the College.

The College carries commercial insurance to cover various general liability risks, auto liability, property and boiler, and umbrella excess liability. The College believes in minimizing its risks through the procurement of the aforementioned coverage. Liabilities exceeding the umbrella excess and deductible amounts are recorded when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. The amount of settlements has not exceeded insurance coverage for the year ended June 30, 2016 and 2015. Management believes those incurred but not reported claims, if any, are immaterial.

The College maintains a split-funded health insurance program. Prevention of catastrophic losses is maintained through both individual and aggregate stop-loss coverage. Stop loss per individual is \$150,000. The College's cost during the year for this program is for the payment of claims, third-party claims administration, and stop-loss coverage. The amount of reserved funds available for potential claims was \$550,000 for each year respectively. The College is self-insured for workers' compensation with aggregate stop-loss coverage of \$350,000. The amount accrued at June 30, 2016 and 2015 for potential claims was \$150,000 for each year respectively.

### NOTE 12 - FUNCTIONAL CLASSIFICATION OF EXPENSES

Operating expenses by functional classification for the year ended June 30, 2016 and 2015 are summarized as follows:

	2016	2015
Instructional and departmental research	\$ 36,212,738	\$ 39,668,796
Institutional research	168,823	271,860
Public service	2,123,943	2,396,793
Academic support	2,676,326	3,434,233
Student services	6,297,808	7,293,329
Institutional support	11,750,679	14,374,497
Operation and maintenance of plant	7,244,949	7,918,000
Scholarships and other student aid	856,171	2,729,398
Depreciation	5,798,412	6,088,650
Auxiliary enterprises - Net of scholarship allowances	1,649,016	5,371,819
Total operating expenses	<u>\$ 74,778,865</u>	<u>\$ 89,547,375</u>

# Owens State Community College

## Notes to Financial Statements June 30, 2016 and 2015

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### NOTE 13 - FISCAL WATCH

In accordance with Ohio Revised Code 3345.72, the Ohio Department of Higher Education declared the College to be in a state of fiscal watch in 2015. The College was placed on fiscal watch as it failed to meet certain financial ratios established by Senate Bill 6. Senate Bill 6 was designed to increase financial accountability of state colleges and universities by using a standard set of measures with which to monitor the fiscal health of campuses. In order to meet the legislative intent of Senate Bill 6, the Board of Regents computes three ratios from which four scores are generated. Using the year-end audited financial statements submitted by each public institution, the Board of Regents annually applies these standards to monitor individual campus finances. The methodology for calculating the three ratios is as follows:

- Viability ratio: Expendable net assets divided by plant debt. (Note: if plant debt is zero, then the viability ratio is not calculated and a viability score of 5 is automatically assigned.)
- Primary reserve ratio: Expendable net assets divided by total operating expenses.
- Net Income Ratio: Change in total net assets divided by total revenues.

Based on the calculations described above, each ratio is assigned a score ranging from zero to five according to the criteria listed in the table below. A score of 5 indicates the highest degree of fiscal strength in each category. A composite score of or below 1.75 for two consecutive years would result in an institution being placed on fiscal watch. The College's composite score was 1.1, 1.0, and 0.70 for fiscal year 2013, 2014, and 2015, respectively. As soon as the College is able to establish a composite score of 2.4 or above, the Board of Regents can adopt a resolution to remove the College from the provisions of fiscal watch. If the College's composite score were to fall to 0.75 or below, and the College is determined by the Board of Regents to have a "serious failure of financial administration and fail to take decisive action to restore financial health," the College could be placed under state control with a conservator being appointed. As part of the fiscal watch provisions, the College was required to submit a financial recovery plan to the Ohio Department of Higher Education within 90 days of official notification. As required by Ohio Administrative rule 126-3-1-01, the plan adopted by the Board was submitted prior to the July 20, 2015 deadline. The Plan covers the three year period in which the College is to achieve the desired composite score of 2.4 beginning with fiscal year 2016.

For the year ended June 30, 2016, the College calculates a composite score of 3.0. Based on this calculation, the College anticipates meeting the criteria for being removed from fiscal watch.

The entire Plan and related information to fiscal watch is available on the College's web site, which is [www.owens.edu](http://www.owens.edu) under "Fiscal Watch Information".

## **Required Supplementary Information**

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Owens State Community College  
 Required Supplementary Information  
 Schedule of the College's Proportionate Share of the Net Pension Liability  
 Last Three Fiscal Years (1)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b><u>School Employees Retirement System of Ohio</u></b>			
College's Proportion of the Net Position Liability	0.502899%	0.569094%	0.569094%
College's Proportionate Share of the Net Pension Liability	\$28,695,893	\$28,801,523	\$33,842,194
College's Covered-Employee Payroll	\$16,563,087	\$17,898,477	\$22,076,595
College's Proportionate Share of the Net Pension Liability as a percentage of its Covered-Employee Payroll	173.25%	160.92%	153.29%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%
<b><u>State Teachers Retirement System of Ohio</u></b>			
College's Proportion of the Net Position Liability	0.23294102%	0.25718643%	0.25718643%
College's Proportionate Share of the Net Pension Liability	\$64,378,084	\$62,556,640	\$74,517,061
College's Covered-Employee Payroll	\$25,037,916	\$27,092,103	\$31,689,425
College's Proportionate Share of the Net Pension Liability as a percentage of its Covered-Employee Payroll	257.12%	230.90%	235.15%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%

(1) Information prior to 2013 is not available.

Owens State Community College  
 Required Supplementary Information  
 Schedule of College Contributions  
 Last Seven Fiscal Years (1)

	2016	2015	2014	2013	2012	2011	2010
<b><u>School Employees Retirement System of Ohio</u></b>							
Contractually Required Contribution	\$ 1,941,088	\$ 2,200,311	\$ 2,391,988	\$ 2,966,632	\$ 2,946,869	\$ 2,970,055	\$ 2,865,926
Contributions in Relation to the Contractually Required Contribution	<u>(1,941,088)</u>	<u>(2,200,311)</u>	<u>(2,391,988)</u>	<u>(2,966,632)</u>	<u>(2,946,869)</u>	<u>(2,970,055)</u>	<u>(2,865,926)</u>
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
College Covered-Employee Payroll	\$ 13,864,914	\$ 16,563,087	\$ 17,898,477	\$ 22,076,595	\$ 21,687,306	\$ 21,926,900	\$ 21,176,398
Contributions as a Percentage of College Covered-Employee Payroll	14.00%	13.28%	13.36%	13.44%	13.59%	13.55%	13.53%
<b><u>State Teachers Retirement System of Ohio</u></b>							
Contractually Required Contribution	\$ 3,201,784	\$ 3,425,522	\$ 3,693,965	\$ 4,324,994	\$ 4,436,854	\$ 4,852,699	\$ 4,709,104
Contributions in Relation to the Contractually Required Contribution	<u>(3,201,784)</u>	<u>(3,425,522)</u>	<u>(3,693,965)</u>	<u>(4,324,994)</u>	<u>(4,436,854)</u>	<u>(4,852,699)</u>	<u>(4,709,104)</u>
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
College Covered-Employee Payroll	\$ 22,869,886	\$ 25,037,916	\$ 27,092,103	\$ 31,689,425	\$ 32,450,613	\$ 35,521,478	\$ 34,315,122
Contributions as a Percentage of College Covered-Employee Payroll	14.00%	13.68%	13.63%	13.65%	13.67%	13.66%	13.72%

(1) - Information prior to 2010 is not available.

## **Supplemental Information**

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

Board of Trustees  
Owens State Community College  
Perrysburg, Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and discretely presented component unit of Owens State Community College (the "College"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated October 10, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the College'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 College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

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

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

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**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the College'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*.

**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 College'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 College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Clark, Schaefer, Hackett & Co.*

Springfield, Ohio  
October 10, 2016

## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Trustees  
Owens State Community College  
Perrysburg, Ohio

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

We have audited the Owens State Community College's (the "College") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended June 30, 2016. The College's major federal programs are identified in the summary of auditors' 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 programs.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for each the College's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and 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 College'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 College's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

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

Management of the College 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 College'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 the College's internal control over compliance.

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

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

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

*Clark, Schaefer, Hackett & Co.*

Springfield, Ohio  
October 10, 2016

Owens State Community College  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2016

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Grant Year	Grant or Pass Through Number	Expenditures
<u>U.S. Department of Education</u>				
<u>Title IV Program</u>				
<u>Student Financial Aid Cluster:</u>				
Federal Supplemental Educational Opportunity Grant	84.007	2016	P007A153346	\$ 310,620
Federal Work Study	84.033	2016	P033A153346	196,394
		2015	P033A143346	1,426
Total Federal Work Study				<u>197,820</u>
Federal Pell Grant	84.063	2017	P063P162779	1,044,794
		2016	P063P152779	13,494,327
		2015	P063P142779	4,397
Total Federal Pell Grant				<u>14,543,518</u>
Federal Direct Student Loans:				
PLUS	84.268	2016	P268K162779	<u>110,036</u>
Stafford - Subsidized	84.268	2016	P268K162779	<u>11,499,290</u>
Stafford - Unsubsidized	84.268	2016	P268K162779	12,060,660
		2015	P268K152779	3,475
Total Stafford - Unsubsidized				<u>12,064,135</u>
Total Federal Direct Student Loans				<u>23,673,461</u>
Total Student Financial Aid Cluster				38,725,419
<u>TRIO Cluster:</u>				
TRIO - Student Support Services	84.042	2016	N/A	67,181
TRIO - Upward Bound	84.047A	2016	N/A	<u>243,239</u>
Total TRIO Cluster				310,420
Total Title IV Program				<u>39,035,839</u>
<u>Title I Program</u>				
<i>Passed through the State of Ohio Board of Regents</i>				
Career and Technical Education (Perkins IV)	84.048	2016	VECPHIII-P01	<u>337,985</u>
Total Title I Program				337,985
<u>Adult Basic and Literacy Education (ABLE) Program</u>				
<i>Passed through the State of Ohio Board of Regents</i>				
Adult Basic and Literacy Education	84.002	2016	074864-AB-S1-2015	677,100
Adult Basic and Literacy Education - EL/Civics	84.002	2016	074864-AB-S2-2015	<u>15,500</u>
Total Adult Basic and Literacy Education Grants				692,600
<u>Tech Prep Education Program</u>				
<i>Passed through the University of Toledo</i>				
Technical Preparation	84.243	2016	N/A	<u>15,236</u>
Total U.S. Department of Education				<u>40,081,660</u>

(continued)

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

Owens State Community College  
Schedule of Expenditures of Federal Awards (continued)  
For the Year Ended June 30, 2016

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Year</u>	<u>Grant or Pass Through Number</u>	<u>Expenditures</u>
<u>U.S. Department of Labor</u>				
<i>Passed through the Cincinnati State Technical &amp; Community College</i>				
Trade Adjustment Assistance Community College & Career Training Grants - The Health Professions Pathways (H2P)	17.282	2016	TC-22486-11-60-A-39	\$ 51,403
<i>Passed through the Lorain County Community College</i>				
Trade Adjustment Assistance Community College & Career Training Grants - Ohio TechNet	17.282	2016	TC-26435-14-60-A-39	<u>197,256</u>
Total Trade Adjustment Assistance Community College & Career Training Grants				248,659
<i>Passed through the Toledo Public Schools</i>				
Youth CareerConnect Program	17.274	2016	YC-25421-14-60-A39	<u>45,457</u>
Total U.S. Department of Labor				<u>294,116</u>
<u>National Science Foundation</u>				
<i>Passed through the Bowling Green State University</i>				
NSF - SEA Change:Using Social Connectivity to Improve Quantitative Literacy	47.076	2016	DUE 152623	<u>10,014</u>
Total National Science Foundation				<u>10,014</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 40,385,790</u>

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

# Owens State Community College

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## Notes to the Schedule of Expenditures of Federal Awards Year Ended June 30, 2016

### **NOTE 1 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Owens State Community College under programs of the federal government for the year ended June 30, 2016. Expenditures reported on the Schedule are reported on the same basis of accounting as the basic financial statements, although the basis for determining when federal awards are expended is presented in accordance with the requirements of either the cost principles in OMB Circular A-21, *Cost Principles for Educational Institutions*, or the cost principles contained Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. The College has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Because the Schedule presents only a selected portion of the operations of Owens State Community College, it is not intended to and does not present the financial position, changes in net position, or cash flows, if applicable, of Owens State Community College. Pass-through entity identifying numbers are presented where available. In addition, the College did not pass-through any federal awards to subrecipients during the year ended June 30, 2016.

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

For the year ended June 30, 2016, the College received a waiver from the Department of Education for the Institutional Share Requirement under the Federal Work-study and Federal Supplemental Educational Opportunity Grant programs.

### **NOTE 3 – LOAN PROGRAMS**

The College originates but does not provide funding under the Direct Loan Program. The amount presented represents the value of new Direct Loans awarded by the Department of Education during the year.

**Section I – Summary of Auditors’ Results**

Financial Statements

Type of auditors’ report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	None noted
• Significant deficiency(ies) identified not considered to be material weakness(es)?	None noted
Noncompliance material to financial statements noted?	None noted

Federal Awards

Internal control over major program:	
• Material weakness(es) identified?	None noted
• Significant deficiency(ies) identified not considered to be material weakness(es)?	None noted
Type of auditors’ report issued on compliance for major federal program:	Unmodified
Any audit findings that are required to be reported in accordance with 2 CFR 200.516(a)?	None noted

Identification of major program:

- Student Financial Aid Cluster:
  - CFDA# 84.007 – Supplemental Educational Opportunity Grant
  - CFDA# 84.033 – College Work Study
  - CFDA# 84.063 – Pell Grant
  - CFDA# 84.268 – Federal Direct Student Loans

Dollar threshold to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

**Section II – Financial Statement Findings**

None noted

**Section III – Federal Awards Findings and Questioned Costs**

None noted

**Section IV – Summary of Prior Audit Findings and Questioned Costs**

None noted



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# Dave Yost • Auditor of State

**OWENS STATE COMMUNITY COLLEGE**

**WOOD 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 29, 2016**