

**OWENS COMMUNITY COLLEGE**  
(A Component Unit of the State of Ohio)

Financial Statements

June 30, 2002

(With Independent Auditors' Reports Thereon)



STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

35 North Fourth Street  
Columbus, Ohio 43215  
Telephone 614-466-3402  
800-443-9275  
Facsimile 614-728-7199  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

Board of Trustees  
Owens Community College

We have reviewed the Independent Auditor's Report of the Owens Community College, Wood County, prepared by KPMG LLP for the audit period July 1, 2001 through June 30, 2002. 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 Community College is responsible for compliance with these laws and regulations.

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO  
Auditor of State

November 13, 2002

**OWENS COMMUNITY COLLEGE**  
(A Component Unit of the State of Ohio)

**Table of Contents**

	<b>Page</b>
Management's Discussion and Analysis	1
Independent Auditors' Report	8
Basic Financial Statements:	
Statement of Net Assets	10
Statement of Revenues, Expenses, and Changes in Net Assets	11
Statement of Cash Flows	12
Notes to the Financial Statements	13
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	24

**Owens Community College**  
**(A Component Unit of the State of Ohio)**

**Management's Discussion and Analysis**

**June 30, 2002**

The management discussion and analysis (MDA) of Owens Community College's (the "College") financial statements provides an overview of the College's operations for the fiscal year ended June 30, 2002 (FY 2002). Management has prepared this analysis, as well as the underlying financial statements and footnote disclosures and is responsible for the completeness and fairness of the information.

FY 2002 being the first period that Governmental Accounting Standards Board (GASB) 34 and 35 is applied, the College is not required to restate a prior period for purposes of comparative data. In future years' MDA reports the College will present a comparative analysis.

Using This Annual Report

The College's annual report consists of three basic financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board principles.

One of the fundamental purposes of these financial statements is to set forth information on the financial health of the College. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets reports information as a whole and helps answer the question as to whether Owens Community College is better off or worse off as a result of the year's activities.

The financial statements report Owens Community College's net assets and changes in them. Over time, increases or decreases in the College's net assets indicate whether the College's financial position is improving or declining. Similarly, other changes of a non-financial nature are relevant as well, such as trends in enrollment, program growth or decline, and the functionality of facilities, and required maintenance.

The College's financial statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector institutions. All of the current revenues and expenses are taken into account regardless of when cash is received or paid.

Financial Highlights

The net assets by category for FY 2002 are shown below. In the aggregate, the net assets increased by \$4.2 million from FY 2001.

Net Assets

Table 1

	<b>Invested in Capital assets</b>	<b>Restricted (for loans)</b>	<b>Unrestricted</b>	<b>Total net assets</b>
FY 2002	\$ 47,850,281	106,676	21,522,807	69,479,764

It should be noted that, previously, expenditures of a capital nature were capitalized if over \$500 and depreciation was not calculated. Beginning with FY 2002, and in compliance with GASB 34, depreciation is now calculated. Also beginning with FY 2002, only items greater than \$5,000 are capitalized.

A summary of the College's net assets as of June 30, 2002 follows:

Table 2

Net assets as of June 30, 2002:

Assets:	
Current assets	\$ 36,773,245
Capital assets	47,850,281
Notes receivable	489,509
<b>Total assets</b>	<b>85,113,035</b>
Liabilities:	
Current liabilities	13,961,954
Non current liabilities	1,671,317
<b>Total liabilities</b>	<b>15,633,271</b>
Invested in capital assets:	47,850,281
Restricted	106,676
Unrestricted	21,522,807
<b>Total net assets</b>	<b>\$ 69,479,764</b>

A summary of the College's revenues, expenses, and changed in net assets for the year ended June 30, 2002 follows:

Table 3

Operating revenues:	
Student tuition and fees	\$ 15,826,831
Grants - federal, state, local	15,759,045
Sales and service	185,783
Auxiliary activities	5,328,881
Other operating revenues	<u>943,914</u>
Total operating revenues	38,044,454
Operating expenses:	
Educational and general	62,556,983
Depreciation	3,479,495
Auxiliary enterprises	<u>5,597,796</u>
Total operating expenses	<u>71,634,274</u>
Operating loss	(33,589,820)
Nonoperating revenues:	
State appropriations	32,915,200
Other nonoperating revenues and expenses	<u>500,653</u>
Total nonoperating revenue	<u>33,415,853</u>
Income before other revenues, expenses, gains, or losses	(173,967)
Capital appropriations and grants	<u>4,352,640</u>
Increase in net assets	4,178,673
Net assets:	
Net assets – beginning of year	<u>65,301,091</u>
Net assets – end of year	<u>\$ 69,479,764</u>

Owens Community College's financial position improved in its operations for FY 2002, with an increase in net assets of \$4,178,673 from the previous year.

Statement of Revenues, Expenses, and Changes in Net Assets

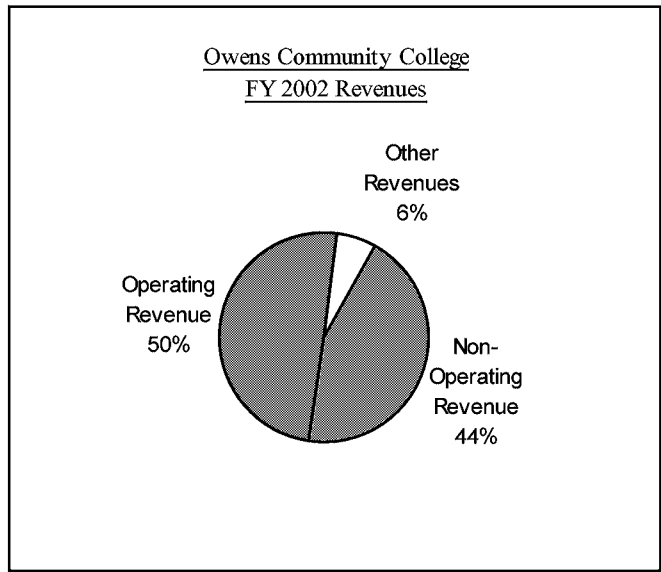
The College converted from a technical college to a state community college in 1994. Since that date, enrollment has increased by 101 percent and the FTE (full-time equivalent) increased by 102 percent. For the Fall Semester 2002, the headcount of 18,467 represents a 7 percent increase over the prior year fall semester, while the FTE of 5,011 represents a 13 percent increase over the prior year fall semester.

The College's two major sources of revenue are: tuition and fees - operating revenue; and the State share of instruction - non-operating revenue. Both types of revenue are keyed to enrollment, with tuition and fees being generated via an assessment mechanism, which focuses on individual credit hours of enrollment. In contrast, the State share of instruction is calculated using a methodology that aggregates credit hours from similar programs

into categories referred to as general, technical, baccalaureate, masters and professional, doctoral and medical. Each of these groupings is then assigned a value based on historical cost. This value, less an assumed charge for the College's tuition and fees, provides a net value, which is then factored by the College's FTE (full-time equivalent) students in that program (Hours/30) to arrive at the monies due the College for the State share of instruction.

The chart set forth below presents total revenues by category for the fiscal year ended June 30, 2002.

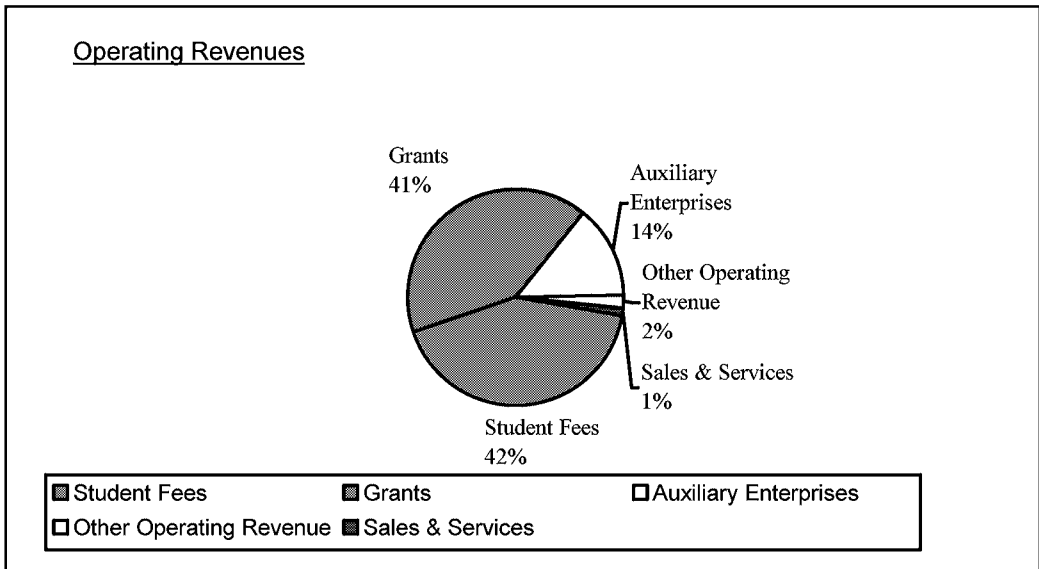
Chart 1



*Operating Revenue*

The chart set forth below reflects the College's operating revenue for the fiscal year ended June 30, 2002.

Chart 2



Student tuition and fees increased as a result of increased enrollment. The College fee that students were assessed on a per credit hour basis for FY 2002 was \$75. Beginning with the Summer 2002 term, the fee was raised to \$85 per credit hour. Beginning with the Spring 2003 term, this fee will again be increased to \$95 per credit hour.

The two recent increases in tuition were due to the fact that the State of Ohio reduced the College's share of instruction by 11% during the last two fiscal years. During this same time period, the College grew by 23% in FTE. The Board of Trustees and Administration were jointly concerned as to the negative impact that faced the budget without the increase in tuition. It is to be noted that although the College raised its fees by 27%, the College is still lower priced than neighboring colleges.

Auxiliary services activities, including food services, bookstore operations, child care services, and communications and printing, increased primarily due to additional textbook sales due to overall enrollment growth.

#### *Non-Operating Revenue*

The College's largest single source of revenue is the non-operating revenue received from the State of Ohio. The College's State share of instruction and Access Challenge funds accounted for \$32,882,984 out of the total State appropriations of \$32,915,200 in FY 2002. This represents a 15% decrease in funding from FY 2001, a result of the targeted funds for the Access Challenge funds being reduced and a decrease in State share of instruction.

Another component of non-operating revenue is investment income. The continued drop in interest rates over the last two years resulted in a 53% decrease in investment income from FY 2001.

#### Operating Expense Changes

The College's revenues and operating expenses are closely linked to student enrollment changes. Many of the expense increases in FY 2002 were the continued result of enrollment increases experienced in the previous years when the College had growth in near double-digit percentages. Increases were experienced in most areas.

Instructional and Departmental Research expense increases are consistent with growth patterns and a 5 percent salary increase plus benefits cost for all full-time faculty.

Depreciation expense of \$3,479,495 appeared for the first time in FY 2002 due to the changes mentioned earlier.

#### Capital Assets

At June 30, 2002, the College had \$47,850,281 invested in capital assets. Of the formerly recorded assets through June 30, 2001, \$45,045,423 was recorded as accumulated depreciation at that date. The adjusted amount of investments in capital net of accumulated depreciation as of June 30, 2001 was \$46,547,348.



The details of the capital assets at June 30, 2002 are shown below.

Land and land improvements	\$ 9,366,469
Buildings	59,453,083
Equipment	23,115,248
Less accumulated depreciation	<u>(48,512,643)</u>
Net of depreciation	43,422,157
Construction in progress	<u>4,428,124</u>
Totals	<u><u>\$ 47,850,281</u></u>

The major Capital project for FY 2002 was the construction of the College's new Center for Fine and Performing Arts, a 74,396 square foot facility with a base construction cost estimated to be \$8,099,992 or \$109 per square foot. Since the start of construction in December 2001, \$4,428,124 has been expended in total, of which \$3,915,408 was expended in FY 2002. This facility will include a 520-seat theater, a 50-seat music recital hall, 13 classrooms, 25 laboratories and 37 offices. The Center will open its doors for students beginning Fall Semester 2003.

Debt associated with capital assets is of a trade payable nature. The College has no long-term debt.

#### Economic Factors that Will Affect the Future

The economic position of Owens Community College is closely tied to that of the State of Ohio. The economic slowdown that began in FY 2001 resulted in a 1 percent cut in the appropriation for FY 2001, and essentially, a flat State budget and flat funding for the College. Subsequent to the beginning of fiscal year 2002, the State cut appropriations by an additional 6 percent, cutting the College's funding by \$2.2 million from FY 2001 levels. As currently budgeted for FY 2003, the College is now anticipating a State share of instruction amount of \$28,051,395. This reflects an approximate \$3 million reduction of funding from the State of Ohio.

The non-operating revenue from State appropriations was down \$5.6 million from FY 2001. In response to the cutbacks, the College's administration had taken the following actions in FY 2002:

- ◆ Instituted a hiring freeze on all non-essential positions.
- ◆ Instituted cuts of 10 percent on an annual basis in materials and supplies, travel and capital.
- ◆ Approved an increase in tuition and fees from \$75 per credit hour to \$85 per credit hour, which became effective with the Summer term of 2002.
- ◆ Approved a second increase in tuition for FY 2003 from \$85 per credit hour to \$95 per credit hour effective for the Spring 2003 term.

Although the State of Ohio has reduced the College's funding, capital plans have remained intact, including the construction phase of the College's Center for Fine and Performing Arts. The final cost of the facility will exceed \$10 million, with the State of Ohio providing just under \$8 million. The College's share of the remaining cost will come from unexpended net assets.

Planning continues on relocating and building a new Findlay campus. The real estate acquisition request has been approved by the Ohio Board of Regents, State Controlling Board and the Owens' Board of Trustees for the purchase of a 60-acre parcel in Hancock County.

Estimated funding for the relocated \$25.7 million College's Findlay Campus includes a \$2 million capital appropriation for the land purchase and land improvements, which was approved by the State of Ohio in 2001. In January 2002, Owens also received a preliminary recommendation from the Ohio Board of Regents for a capital appropriation of \$8,746,360 to construct an Education Center – Phase I building on the Findlay Campus. The College is currently awaiting final approval of the new House Bill. The additional funds will be incurred by the sale of the existing facility. Phase I of the College's Findlay Campus project is estimated to cost approximately \$17.7 million, will include infrastructure of utilities, parking lots and roadways and the construction of a 100,000 square foot Education Center. In addition to Phase I, the College received funding for a stand-alone \$250,600 Child Care Center of 2,400 square feet.



Suite 1200  
150 West Jefferson  
Detroit, MI 48226-4429

## Independent Auditors' Report

The Board of Trustees  
Owens Community College:

We have audited the accompanying basic financial statements of Owens Community College (the College), a component unit of the State of Ohio, as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Owens Community College as of June 30, 2002, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 13, 2002 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in note 13, during the year ended June 30, 2002 the College adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; GASB Statement 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*; GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.



The Management's Discussion and Analysis on pages 1 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

September 13, 2002

**OWENS COMMUNITY COLLEGE**  
(A Component Unit of the State of Ohio)

Statement of Net Assets

June 30, 2002

**Assets**

Current assets:	
Cash and cash equivalents	\$ 21,682,363
Investments	32,580
Accounts receivable, net of allowance of \$1,023,027	11,792,161
Receivable from Foundation	16,274
Prepaid expenses and deferred charges	2,120,329
Deposits	22,005
Inventories	1,021,149
Notes receivable, net	<u>86,384</u>
Total current assets	36,773,245
Noncurrent assets:	
Capital assets, net	47,850,281
Notes receivable, net of allowance of \$255,141	<u>489,509</u>
Total noncurrent assets	<u>48,339,790</u>
Total assets	<u><u>\$ 85,113,035</u></u>

**Liabilities and Net Assets**

Liabilities:	
Current liabilities:	
Accounts payable	\$ 2,388,042
Salaries, wages, and fringe benefits payable	2,874,078
Deferred revenue	8,590,015
Deposits held for others	<u>109,819</u>
Total current liabilities	13,961,954
Noncurrent liabilities:	
Benefits payable	945,000
Federal student loans	<u>726,317</u>
Total noncurrent liabilities	<u>1,671,317</u>
Total liabilities	15,633,271
Net assets:	
Invested in capital assets	47,850,281
Restricted for expendable assets	106,676
Unrestricted	<u>21,522,807</u>
Total net assets	<u>69,479,764</u>
Total liabilities and net assets	<u><u>\$ 85,113,035</u></u>

See accompanying notes to the financial statements.

**OWENS COMMUNITY COLLEGE**  
(A Component Unit of the State of Ohio)

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2002

Operating revenues:	
Student tuition and fees, net of scholarship allowances of \$7,497,224	\$ 15,826,831
Grants – federal, state, local	15,759,045
Sales and services	185,783
Auxiliary activities, net of scholarship allowances of \$17,023	5,328,881
Other operating revenues	943,914
Total operating revenues	38,044,454
Operating expenses:	
Educational and general:	
Instructional and departmental research	26,652,230
Institutional research	98,008
Public service	2,486,825
Academic support	2,812,118
Student services	7,973,990
Institutional support	7,872,070
Operation and maintenance of plant	6,851,587
Scholarships and other student aid	7,810,155
Depreciation	3,479,495
Auxiliary enterprises	5,597,796
Total operating expenses	71,634,274
Operating loss	(33,589,820)
Nonoperating revenues (expenses):	
State appropriations	32,915,200
Investment income	559,007
Loan costs	(58,354)
Net nonoperating revenues	33,415,853
Income before other revenues, expenses, gains, or losses	(173,967)
Capital appropriations	4,347,780
Capital grants	4,860
Total other revenues	4,352,640
Increase in net assets	4,178,673
Net assets:	
Net assets – beginning of year	65,301,091
Net assets – end of year	\$ 69,479,764

See accompanying notes to the financial statements.

**OWENS COMMUNITY COLLEGE**  
(A Component Unit of the State of Ohio)

Statement of Cash Flows

Year ended June 30, 2002

Cash flows from operating activities:	
Student tuition and fees	\$ 14,378,529
Grants – federal, state, local	16,946,114
Payments to suppliers, students, and others	(25,935,092)
Payments to employees and benefits	(43,118,604)
Auxiliary enterprises	4,940,276
Sales and services	185,783
Other receipts	999,949
	<hr/>
Net cash used in operating activities	(31,603,045)
Cash flows from noncapital financing activities:	
State appropriations	32,915,200
Other	2,527
Loan notes receivable	9,743
	<hr/>
Net cash provided by noncapital financing activities	32,927,470
Cash flows from capital and related financing activities:	
Capital appropriations	3,739,806
Capital grants and gifts received	4,860
Purchases of capital assets	(4,782,428)
	<hr/>
Net cash used in capital and related financing activities	(1,037,762)
Cash flows from investing activities:	
Interest on investments	559,007
Proceeds from sale and maturity of investments	10,927,972
	<hr/>
Net cash provided by investing activities	11,486,979
Net increase in cash	11,773,642
Cash – beginning of the year	<hr/> 9,908,721
Cash – end of year	\$ <u><u>21,682,363</u></u>
Reconciliation of net operating revenues (expenses) to net cash used in operating activities:	
Operating loss	\$ (33,589,820)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	3,479,495
Changes in assets and liabilities:	
Receivables, net	(913,979)
Inventories	(329,637)
Other assets	(1,517,248)
Accounts payable	(121,205)
Salaries, wages, and benefits payable	(426,070)
Deferred revenue	1,759,384
Deposits held for others	56,035
	<hr/>
Net cash used in operating activities	\$ <u><u>(31,603,045)</u></u>

See accompanying notes to the financial statements.

**OWENS COMMUNITY COLLEGE**  
(A Component Unit of the State of Ohio)

Notes to the Financial Statements

June 30, 2002

**(1) Summary of Significant Accounting Policies**

**(a) Organization**

Owens Community College (the College) was created pursuant to Section 3357 of the Ohio Revised Code. In November 1994, the Ohio Board of Regents approved changing the status of the College from a technical college to a community college, pursuant to Section 3358 of the Ohio Revised Code. Subsequent to June 30, 1994, the College changed its legal name to Owens State Community College, but operates under the name Owens Community College. 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 (the State). The accompanying financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, in that the financial statements include those activities and functions over which the State is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's Board and either (1) the State's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit or impose a financial burden on the State. The College does not have any component units.

**(b) Financial Statement Presentation**

The College follows all applicable GASB pronouncements. In addition, the College applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The College has elected not to apply FASB pronouncements issued after November 30, 1989.

The accompanying financial statements have been prepared using the economic resource measurement focus and the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America for publicly owned colleges and universities, and are presented in accordance with the reporting model as prescribed in GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The College has applied these standards on a retroactive basis. The College follows the "business-type" activities requirements of GASB Statement No. 34. This approach requires the following components of the College's financial statements:

- Management's discussion and analysis;



**OWENS COMMUNITY COLLEGE**  
(A Component Unit of the State of Ohio)

Notes to the Financial Statements

June 30, 2002

- Basic financial statements, including a statement of net assets, statement of revenues, expenses, and changes in net assets, and a statement of cash flows for the College as a whole; and
- Notes to the financial statements.

GASB Statement No. 34 established standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following three net asset categories:

- *Invested in capital assets, net of related debt:* Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- *Restricted net assets – expendable:* Net assets 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.
- *Unrestricted:* Net assets that are not subject to externally imposed constraints. Unrestricted net assets may be designated for specific purposes by action of the board of trustees (the Board) or may otherwise be limited by contractual agreements with outside parties.

The financial statements of all controlled organizations are required to be included in the College's financial statements; organizations which are not controlled by the College, such as the Owens State Community College Foundation, are not included in the College's financial statements. There are no controlled organizations included in the College's financial statements for 2002.

**(c) Basis of Accounting**

For financial reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. Accordingly, the College's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

**(d) Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on hand and demand deposits with banks. For purposes of the statement of cash flows, the College considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

**(e) Investments**

All investments are stated at fair value, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Investments in publicly traded securities are stated at fair value as established by major securities markets. Nonpublicly traded investments are valued based on independent appraisals and estimates considering market prices of similar investments. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statement of revenue, expenses, and changes in net assets.

**OWENS COMMUNITY COLLEGE**  
(A Component Unit of the State of Ohio)

Notes to the Financial Statements

June 30, 2002

**(f) Accounts Receivable**

Accounts receivable consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the College's grants and contracts.

**(g) Short-term Investments**

Short-term investments include highly liquid and short-duration assets. These assets can be withdrawn on demand.

**(h) Inventories**

Inventories consist principally of merchandise in the College's bookstores and are stated at the lower of cost or market (net realizable value) using the first-in, first-out (FIFO) method.

**(i) Capital Assets**

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation in the case of gifts. For equipment, the College's capitalization policy includes all items with a cost of \$5,000 or more and an estimated useful life of greater than three years. Renovations to buildings that exceed 5% of the cumulative building cost are capitalized. Routine repairs and maintenance are charged to operating expenses in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally as follows:

Land improvements	5 years
Buildings	40 years
Building improvements	15 years
Equipment	5 years
Computers, hardware, and software	3 years
Vehicles	5 years
Furniture and accessories	5 years

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts.

**(j) Deferred Revenue**

Deferred revenue includes amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. The effect of allocating the summer term between fiscal years does not have a significant impact on the financial presentation. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

**OWENS COMMUNITY COLLEGE**  
(A Component Unit of the State of Ohio)

Notes to the Financial Statements

June 30, 2002

**(k) *Compensated Absences***

College employees accumulate sick leave at a rate of 15 days per year. It is the policy of the College that, upon retirement from the College, an employee with ten years or more of service may receive one-fourth of his or her accumulated unused sick leave up to a maximum of 44.5 days. Payments at retirement for accumulated sick leave are calculated using the rate of compensation at the date of retirement. The College's policy is to accrue all sick leave for which payment is deemed probable.

College employees accumulate vacation based on years of service. It is the policy of the College that, upon separation from the College, an employee may receive his or her accumulated unused vacation. Certain limitations have been placed on the hours of vacation that employees may accumulate and carry over for payment at separation.

**(l) *Operating and Nonoperating Revenues***

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

**(m) *Student Tuition and Fees***

Student tuition and fee revenues are reported net of scholarship allowances in the statement of revenues, expenses, and changes in net assets.

**(n) *Scholarship Discounts and Allowances***

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants and other federal, state, or nongovernmental programs, are recorded as operating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.

**(o) *Auxiliary Activities***

Auxiliary activities primarily represent revenues generated for the College's bookstore and various other departmental activities that provide services to the student body, faculty, and staff.

**OWENS COMMUNITY COLLEGE**  
(A Component Unit of the State of Ohio)

Notes to the Financial Statements

June 30, 2002

**(p) Income Taxes**

Income taxes have not been provided on the general operations of the College because, as a state institution, its income is exempt from Federal income taxes under Section 115 of the Internal Revenue Code (IRC).

**(q) Eliminations**

In preparing the basic financial statements, the College eliminates interfund assets and liabilities that would otherwise be reflected twice in the statement of net assets. Similarly, revenues and expenses related to internal service activities are also eliminated from the statement of revenues, expenses, and changes in net assets. Student tuition and fees, auxiliary activities, and scholarships and other student aid are presented net of scholarships applied to student accounts.

**(r) Use of Estimates**

Management of the College has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

**(2) Cash and Investments**

The College uses the “pooled cash” method of accounting for substantially all of its operating cash and investments, which as of June 30, 2002 were as follows:

Cash	\$ 21,682,363
Investments	<u>32,580</u>
	<u>\$ 21,714,943</u>

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, which is the price the investment could be sold for on June 30, 2002.

Cash balances are combined into one pool for making daily cash and investment transactions.

GASB Statement No. 3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements*, requires cash and cash equivalents and investments held by the College to be categorized into the following custodial credit risk categories:

**(a) Cash and Cash Equivalents**

1. Insured or collateralized with securities held by the College, or by its agent in the College’s name.

**OWENS COMMUNITY COLLEGE**  
(A Component Unit of the State of Ohio)

Notes to the Financial Statements

June 30, 2002

2. Collateralized with securities held by the pledging financial institution's trust department or agent.
3. Uncollateralized.

**(b) Investments**

1. Insured or registered, with securities held by the College or by its agent in the College's name.
2. Uninsured and unregistered, with securities held by the broker's trust department or agent in the College's name.
3. Uninsured and unregistered, with securities held by the broker or by its trust department or agent, but not in the College's name.

At June 30, 2002, the carrying amount of the College's cash and cash equivalents for all funds was \$21,682,363. The difference in the carrying amount and the bank balance of \$22,956,165 is caused by items in transit and outstanding checks. Of the bank balance, \$425,736 was covered by federal depository insurance and \$22,530,429 was uncollateralized (category 3). All uncollateralized deposits are covered by a pledged collateral pool.

Investments at June 30, 2002 consist of the investment in STAR Ohio of \$32,580. GASB Statement No. 3 does not require STAR Ohio assets to be categorized.

**(3) Accounts Receivable**

The composition of accounts receivable at June 30, 2002 is summarized as follows:

Student receivables for fees and auxiliary services, net of allowance	\$	8,913,497
Grants – federal, state, local		1,458,092
Capital appropriations		762,511
Other		658,061
Accounts receivable	\$	<u><u>11,792,161</u></u>

**(4) Accounts Payable**

The composition of accounts payable at June 30, 2002 is summarized as follows:

Trade payables	\$	1,625,531
Construction payable		762,511
Accounts payable	\$	<u><u>2,388,042</u></u>

**OWENS COMMUNITY COLLEGE**  
(A Component Unit of the State of Ohio)

Notes to the Financial Statements

June 30, 2002

**(5) State Support**

The College is a State-assisted institution of higher education which receives a student-based subsidy from the State of Ohio. This subsidy is determined annually based upon a formula devised by the State of Ohio.

In addition to student subsidies, the State of Ohio provides funding for construction of major plant facilities. The funding is obtained from the issuance of revenue bonds by the Ohio Public Facilities Commission (OPFC). Such facilities are reflected as buildings, improvements other than buildings, or construction in progress in the accompanying statement of net assets. College facilities are not pledged as collateral for the revenue bonds. Instead, the bonds are supported by a pledge of monies in the Higher Education Bond Service Fund, established in the custody of the Treasurer of State. If sufficient monies are not available from this fund, a pledge exists to assess a special student fee uniformly applicable to all students in State-assisted institutions of higher education throughout the state.

As a result of the above-described financial assistance provided by the State of Ohio to the College, outstanding debt issued by OPFC is not included on the College's statement of net assets. In addition, appropriations by the General Assembly to the board of regents for payments of debt service are not reflected as appropriation revenues received by the College, and the related debt service payments are not recorded in the College's accounts.

The College capitalizes the costs of renovations to existing facilities as funds are expended. As of June 30, 2002, construction in progress on such new facilities was \$4,428,124 and unexpended appropriations authorized by the State of Ohio legislature for the purchase of land, renovation of existing facilities, and construction of new facilities were \$2,169,966.

**(6) Retirement Plans**

The College contributes to two cost-sharing, multiple-employer defined benefit plans: (1) School Employees Retirement System (SERS), and (2) State Teachers Retirement System of Ohio (STRS). Both plans provide retirement, disability, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code (ORC) for SERS and Chapter 3307 for STRS. SERS and STRS issue stand-alone financial reports. Interested parties may obtain a copy by making a written request to 45 North Fourth Street, Columbus, Ohio, 43215-3634, or by calling (614) 222-5853 for SERS, and 275 East Broad Street, Columbus, Ohio, 43215-3771, or by calling (614) 227-4090 for STRS.

The funding policy for the above plans is as follows:

SERS: The ORC provides statutory authority for employee and employer contributions. During 2002, SERS employees contributed 9.0% of their salary to the plan, and the College contributed 14.0% of covered payrolls to the plan. The total employer contributions to SERS for the years ended June 30, 2000, 2001, and 2002 were approximately \$1,218,000, \$1,443,000, and \$1,523,000, respectively, which were equal to the required contributions for each year.

**OWENS COMMUNITY COLLEGE**  
(A Component Unit of the State of Ohio)

Notes to the Financial Statements

June 30, 2002

STRS: The ORC provides statutory authority for employee and employer contributions. During 2002, STRS employees contributed 9.3% of their salary to the plan, and the College contributed 14.0% of covered payrolls to the plan. The total employer contributions to STRS for the years ended June 30, 2000, 2001, and 2002 were approximately \$2,422,000, \$2,621,000, and \$2,550,000, respectively, which were equal to the required contributions for each year.

Ohio Amended Substitute House Bill 586 (Ohio Revised Code 3305.2) became effective March 31, 1998, authorizing an alternative retirement system for academic and administrative college employees of public institutions of higher education, who are currently covered by the State Teachers Retirement System. The Owens Community College board of trustees adopted such a plan effective February 1999. This plan is a defined contribution plan under IRC Section 401(a).

Eligible employees (those who are full-time and salaried) have 90 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 program must contribute the employee's share of retirement contributions (9.3% STRS) to one of eight private providers approved by the State Department of Insurance. The legislation mandates that the employer must contribute 3.5% to the state retirement system to which the employee would have otherwise belonged. The employer also contributes what would have been the employer's share of the appropriate retirement system, less the aforementioned 3.5%, to the private provider selected by the employee. The College plan provides these employees with immediate plan vesting. The total employer contribution to the alternative retirement plan for the years ended June 30, 2000, 2001, and 2002 were approximately \$44,000, \$16,000, and \$29,000, respectively.

**(7) Postemployment Benefits Other Than Pension Benefits**

In addition to the pension benefits described in note 6, the Ohio Revised Code provides the statutory authority requiring the College to fund postretirement health care through employer contributions to SERS and STRS.

**(a) SERS**

SERS provides postretirement health care coverage to age and service retirants with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to SERS is set aside for the funding of postretirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2001 employer contribution rate for state employers was 14% of covered payroll; 9.8% was the portion that was used to fund health care for the year.

OPEB's are financed through employer contributions and investment earnings thereon. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely.

**OWENS COMMUNITY COLLEGE**  
(A Component Unit of the State of Ohio)

Notes to the Financial Statements

June 30, 2002

For the year ended June 30, 2001, expenditures for OPEB's as a whole for SERS were \$161.4 million. As of June 30, 2001, the audited net assets available for future OPEB payments were \$315.7 million. The number of eligible benefit recipients for SERS was 58,795.

**(b) STRS**

STRS provides comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physician fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Pursuant to the ORC, STRS has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium.

By Ohio law, the cost of the coverage paid from STRS funds shall be included in the employer's contribution rate, currently 14% of covered payroll.

The STRS board currently allocates employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund, from which payments for health care benefits are paid. The balance in the Health Care Reserve Fund was approximately \$3.3 billion at June 30, 2001. The Health Care Reserve Fund allocation for the year ended June 30, 2002 will be 4.5% of covered payroll.

For the year ended June 30, 2001, the net health care costs paid by the STRS system as a whole were \$300.8 million. There were 102,132 eligible benefit recipients.

**(8) Federal and State Grants**

The College participates in certain state and federally assisted grant programs. Revenues from government grants and contracts are recognized as the related costs are incurred. These programs are subject to financial and compliance audits by the grantors or their representatives. Until such audits are completed, there is a possibility that some portions of such grants may have to be refunded. Management of the College believes there will be no material adjustments to the grants and, accordingly, has not recorded a provision for possible repayments under the above programs.

The College also participates in several United States Government student loan programs. Such programs are required to comply with requirements determined by the Department of Education and are subject to audit and adjustments. Such adjustments could result in requests for reimbursement by the Department of Education for costs, which may be disallowed as appropriate expenses under the grant terms. Management believes disallowances, if any, will not be material.



**OWENS COMMUNITY COLLEGE**  
(A Component Unit of the State of Ohio)

Notes to the Financial Statements

June 30, 2002

**(9) Capital Assets**

Capital asset activity for the year ending June 30, 2002 was as follows:

	<u>Balance July 1, 2001</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2002</u>
Nondepreciated capital assets:				
Land	\$ 3,404,958	—	—	3,404,958
Construction in progress	512,716	3,915,408	—	4,428,124
	<u>3,917,674</u>	<u>3,915,408</u>	<u>—</u>	<u>7,833,082</u>
Other capital assets:				
Land improvements	5,758,183	203,328	—	5,961,511
Buildings	59,236,269	216,814	—	59,453,083
Equipment	9,072,340	346,985	—	9,419,325
Computers, hardware, and software	11,133,182	99,893	—	11,233,075
Vehicles	1,234,581	—	12,275	1,222,306
Furniture and accessories	1,240,542	—	—	1,240,542
Accumulated depreciation	(45,045,423)	(3,479,495)	(12,275)	(48,512,643)
	<u>42,629,674</u>	<u>(2,612,475)</u>	<u>—</u>	<u>40,017,199</u>
Total capital assets, net	<u>\$ 46,547,348</u>	<u>1,302,933</u>	<u>—</u>	<u>47,850,281</u>

**(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 IRS had determined the Trust to be exempt from Federal income taxes under IRC Section 501(c)(3). 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, 2002 were \$840,164. The College received \$52,422 from the Foundation in 2002.

**(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. Management believes that incurred but not reported claims, if any, are immaterial.

**OWENS COMMUNITY COLLEGE**  
(A Component Unit of the State of Ohio)

Notes to the Financial Statements

June 30, 2002

The College maintains a split-funded health insurance program. Prevention of catastrophic losses is maintained through both individual and aggregate stop-loss coverage. 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 College participates in the State of Ohio Workers' Compensation program.

**(12) Net Assets**

A summary of restricted and unrestricted net assets is as follows:

Restricted – expendable:	
Student loans	\$ <u>106,676</u>
Unrestricted:	
Designated	\$ 8,295,043
Uncommitted	<u>13,227,764</u>
Total	\$ <u>21,522,807</u>

**(13) Change in Accounting Principle**

As a result of the adoption of GASB Statement No. 34, the College was also required to make certain changes in accounting principles, specifically adoption of depreciation on capital assets of \$45,045,423 and recording federal student loan deposits of \$665,437. Combined fund balances, as previously reported of \$111,011,951, to the restated net assets at July 1, 2001 were reduced by \$45,710,860 for the cumulative effect of these changes on years prior to fiscal year 2002.



Suite 1200  
150 West Jefferson  
Detroit, MI 48226-4429

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

The Board of Trustees  
Owens Community College:

We have audited the financial statements of Owens Community College (the College), a component unit of the State of Ohio, as of and for the year ended June 30, 2002 and have issued our report thereon dated September 13, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

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

**KPMG LLP**

September 13, 2002

**OWENS COMMUNITY COLLEGE**  
(A Component Unit of the State of Ohio)

OMB Circular A-133 Single Audit Report

Year Ended June 30, 2002

(With Independent Auditors' Reports Thereon)

**OWENS COMMUNITY COLLEGE**  
(A Component Unit of the State of Ohio)  
OMB Circular A-133 Single Audit Report

**Table of Contents**

	<b>Page</b>
Schedule of Expenditures of Federal Awards	1
Notes to Schedule of Expenditures of Federal Awards	2
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	3
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	4
Schedule of Findings and Questioned Costs	6

**OWENS COMMUNITY COLLEGE**  
(A Component Unit of the State of Ohio)  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2002

<u>Federal Grantor/Pass-through Grantor/ Program Title</u>	<u>Federal CFDA number</u>	<u>Agency or pass-through number</u>	<u>Federal expenditures</u>
<i>U.S. Department of Education:</i>			
Student Financial Assistance Cluster:			
Federal Supplemental Educational Opportunity Program	84.007	N/A	\$ 449,170
Federal Family Education Loan Program	84.032	N/A	15,024,037
Federal Work-Study Program	84.033	N/A	384,950
Federal Perkins Loan Program	84.038	N/A	178,961
Federal Pell Grant Program	84.063	N/A	10,762,714
Total Student Financial Assistance Cluster			<u>26,799,832</u>
Vocational Education Basic Grants to States	84.048	VECPH-P01	132,384
Passed through from the State of Ohio Department of Education:			
Adult Education, State Grant Program:			
Adult Basic and Literacy Education	84.002	074864-AB-S1-01C	16,291
Adult Basic and Literacy Education	84.002	074864-AB-SL-01C	12,929
Adult Basic and Literacy Education	84.002	074864-AB-S1-02	104,236
Adult Basic and Literacy Education	84.002	074864-AB-SL-02	315,730
Adult Basic and Literacy Education	84.002	074864-AB-SL-01	31,482
Passed through from Lucas County Metropolitan Housing Authority:			
Adult Basic and Literacy Education	84.002	118885-AB-SI-02	37,217
Total Adult Basic and Literacy Education Grants			<u>517,885</u>
Passed through from University of Toledo:			
Tech - Prep Education	84.243	N/A	91,044
Total U.S. Department of Education			<u>27,541,145</u>
<i>U.S. Department of Health and Human Services:</i>			
Passed through from Hazardous Materials Training Research Institute:			
NIEHS Hazardous Substances Basic Research & Education	93.143	5U45ES0617-09	879
<i>U.S. Department of Labor:</i>			
WIA Cluster:			
Passed through from Wood County Jobs and Family Services:			
Workforce Investment Act of 1998	17.258	N/A	78,865
Total expenditures of federal awards			<u>\$ 27,620,889</u>

See accompanying notes to schedule of expenditures of federal awards and independent auditors' reports.

**OWENS COMMUNITY COLLEGE**  
(A Component Unit of the State of Ohio)

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2002

**(1) General**

The accompanying schedule of expenditures of federal awards (the Schedule) presents the activity of federal award programs of Owens Community College. Owens Community College's reporting entity is defined in note 1 to its financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through government agencies, are included on the Schedule. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**(2) Basis of Accounting**

The accompanying Schedule is prepared using the accrual basis of accounting.

**(3) Federal Loan Programs**

As of June 30, 2002, loans outstanding under the Federal Perkins Loan Program (CFDA #84.038) amounted to \$832,993. This loan balance is not included in the federal expenditures presented in the Schedule.



Suite 1200  
150 West Jefferson  
Detroit, MI 48226-4429

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

The Board of Trustees  
Owens Community College:

We have audited the financial statements of Owens Community College (the College) as of and for the year ended June 30, 2002 and have issued our report thereon dated September 13, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

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

**KPMG LLP**

September 13, 2002





Suite 1200  
150 West Jefferson  
Detroit, MI 48226-4429

**Independent Auditors' Report on Compliance with  
Requirements Applicable to Each Major Program and on  
Internal Control Over Compliance in Accordance with  
OMB Circular A-133**

The Board of Trustees  
Owens Community College:

**Compliance**

We have audited the compliance of Owens Community College (the College) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2002. The College's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

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

In our opinion, the College complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 02-1.



### **Internal Control Over Compliance**

The management of the College is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over compliance that, in our judgment, could adversely affect the College's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 02-1.

A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above is considered to be a material weakness.

### **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the College as of and for the year ended June 30, 2002 and have issued our report thereon dated September 13, 2002. Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

**KPMG LLP**

September 13, 2002

**OWENS COMMUNITY COLLEGE**  
(A Component Unit of the State of Ohio)  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2002

**(1) Summary of Auditors' Results:**

(a) <i>Type of report issued on the financial statements:</i>	Unqualified Opinion
(b) <i>Reportable conditions in internal control were disclosed by the audit of the financial statements:</i>	None Reported
<i>Material weaknesses:</i>	No
(c) <i>Noncompliance which is material to the financial statements:</i>	No
(d) <i>Reportable conditions in internal control over major program:</i>	Yes
<i>Material weaknesses:</i>	Yes
(e) <i>Type of report issued on compliance for major program:</i>	Unqualified Opinion
(f) <i>Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133:</i>	Yes
(g) <i>Major program:</i>	
<i>U.S. Department of Education – Student Financial Assistance Cluster (CFDA #84.007; 84.032; 84.033; 84.038; and 84.063)</i>	
(h) <i>Threshold used to distinguish between Type A and Type B programs:</i>	\$ 853,616
(i) <i>Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133:</i>	Yes

<b>(2) Findings Relating to the Financial Statements Reported in Accordance with Government Auditing Standards:</b>	None
---	------

**OWENS COMMUNITY COLLEGE**  
(A Component Unit of the State of Ohio)  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2002

**(3) Findings and Questioned Costs Relating to Federal Awards:**

**Finding 02-1**

**Grant Program/CFDA #:** U.S. Department of Education – Student Financial Assistance Cluster / CFDA #84.007; #84.032; #84.033; #84.038; and #84.063.

**Requirement:** *Special Tests and Provisions – Return of Title IV Funds:* A school is required to have a fair and equitable refund policy under which the school shall make refunds of unearned tuition, fees, room and board, and other charges to a student who received HEA Title IV Student Financial Assistance. Under the FFEL program, the school pays to the original lender the portion of the refund that is allocable to the loan. Refunds should be processed in accordance with the established guidelines and timeframes.

**Finding:** A sample of 60 students was tested relative to refund calculations. Five instances were noted in which recalculations were not completed and processed in accordance with the established guidelines and timeframes.

**Questioned Costs:** \$901

**Systemic or Isolated:** Systemic

**Effect of Findings:** Refund calculations may not have been properly completed for other students who did not meet the requirements to receive their full financial aid award.

**Recommendation:** The system should be designed so that management review controls are in place over the refund calculation and reporting process to ensure that refund calculations are completed and processed in accordance with the established guidelines.

**Data Collection Form for Reporting on**

**AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS**

**RETURN TO: Federal Audit Clearinghouse, 1201 E. 10th Street, Jeffersonville, IN 47132**

**Form SF-SAC(3-20-2001)**

**OMB #0348-0057**

**Report ID : 55514**

**11/9/02**

<b>Part I: GENERAL INFORMATION</b>			
1. Fiscal year ending date for this submission (mm/dd/yyyy)  06/30/2002		2.Type of A-133 audit  <input checked="" type="checkbox"/> Single audit	
3. Audit period covered  <input checked="" type="checkbox"/> Annual		CENSUS USE ONLY	4.Date received by clearinghouse
5.Employer Identification Number (EIN)  a.Auditee EIN 341059164		b.Are multiple EINS covered in this report?  <input checked="" type="checkbox"/> No	
<b>6.AUDITEE INFORMATION</b>		<b>7.AUDITOR INFORMATION</b>	
a.Auditee name OWENS COMMUNITY COLLEGE		a.Auditor name KPMG LLP	
b.Auditee address (Number and street)  P.O. BOX 10,000		b.Auditor address (Number and street)  150 WEST JEFFERSON	
City TOLEDO		City DETROIT	
State	Zip	Code	
OH	43699 -		
c.Auditee contact Name RONALD KEISTER		c.Auditor contact Name SEAN KEENAN	
Title DIRECTOR OF FINANCE		Title PARTNER	
d.Auditee contact telephone ( 419 ) 661 - 7006		d.Auditor contact telephone ( 313 ) 983 - 0200	
e.Auditee contact FAX (Optional) ( ) -		e.Auditor contact FAX (Optional) ( 313 ) 983 - 0008	
f.Auditee contact E-mail (Optional)		f.Auditor contact E-mail (Optional)	

**g.AUDITEE CERTIFICATION STATEMENT** -This is to certify that, to the best of my knowledge and belief, the auditee has:(1)Engaged an auditor to perform an audit in accordance with the provisions of OMB Circular A-133 for the period described in Part I, items 1 and 3; (2)the auditor has completed such audit and presented a signed audit report which states that the audit was conducted in accordance with the provisions of the Circular; and,(3)the information included in **Parts I,II,and III** of this data collection form is accurate and complete.I declare that the foregoing is true and correct.

Signature of certifying official

Date

\_\_\_\_\_

\_\_\_\_/\_\_\_\_/\_\_\_\_

Name/Title of certifying official

\_\_\_\_\_

**g.AUDITOR STATEMENT** - The data elements and information included in this form are limited to those prescribed by OMB Circular A-133.The information included in Parts II and III of the form, except for Part III, Items 9, 10, and 11, was transferred from the auditor's report(s) for the period described in Part I, Items 1 and 3, and is **not a substitute** for such reports. The Auditor has not performed any auditing procedures since the date of the auditor's report(s). A copy of the reporting package required by OMB Circular A-133,which includes the complete auditor's report(s), is available in its entirety from the auditee at the address provided in Part I of this form. As required by OMB Circular A-133, the information in **Parts II and III** of this form was entered in this form by the auditor based on information included in the reporting package. The auditor has not performed any additional auditing procedures in connection with the completion of this form.

Signature of auditor

Date

\_\_\_\_\_

\_\_\_\_/\_\_\_\_/\_\_\_\_

Form SF-SAC(3-20-2001) OMB #0348-0057

Report ID : 55514

<b>Part I: GENERAL INFORMATION - Continued</b>	
8. Did the auditee expend more than \$25,000,000 in Federal awards during the fiscal year? <i>(Mark (x) one box)</i>	
<input checked="" type="checkbox"/> Yes - <b>Identify Cognizant Agency in Part I, Item 9</b>	
9. Indicate which <b>Federal</b> awarding agency provided the predominant amount of direct funding in fiscal year 2000. <i>(Mark (x) one box) However, if cognizance has been reassigned, see instructions</i>	
84	<input checked="" type="checkbox"/> Department of Education
<b>Part II: FINANCIAL STATEMENTS <i>(To be completed by auditor)</i></b>	
1. Type of audit report <i>(Mark (x) one box)</i>	
<input checked="" type="checkbox"/> Unqualified opinion	
2. Is a "going concern" explanatory paragraph included in the audit report?	
<input checked="" type="checkbox"/> No	
3. Is a reportable condition disclosed?	
<input checked="" type="checkbox"/> No - <b>SKIP to Item 5</b>	
4. Is any reportable condition reported as a material weakness?	
5. Is a material noncompliance disclosed?	
<input checked="" type="checkbox"/> No	
<b>Part III: FEDERAL PROGRAMS <i>(To be completed by auditor)</i></b>	
1. Type of audit report on major program compliance	
<input checked="" type="checkbox"/> Unqualified opinion	
2. Does the auditor's report include a statement that the auditee's financial statements include departments, agencies, or other organizational units expending greater than \$300,000 in Federal awards that have separate A-133 audits which	

are not included in this audit? (AICPA SOP 98-3 chapter 10)

No

3. What is the dollar threshold to distinguish Type A and Type B programs? (§ .520(b)) Round to the nearest dollar.

\$853616.00

4. Did the auditee qualify as a low-risk auditee? (§ .530)

Yes

5. Is a reportable condition disclosed for any major program? (§ .510(a)(1))

Yes

6. Is any reportable condition reported as a material weakness? (§ .510(a)(1))

Yes

7. Are any known questioned costs reported? (§ .510(a)(3) or (4))

Yes

8. Was a Summary Schedule of Prior Audit Findings prepared? (§ .315(b))

No

9. Indicate which **Federal** agency(ies) have current year audit findings related to **direct** funding or prior audit findings, as shown in the Summary Schedule of Prior Audit Findings, related to **direct** funding. (Mark (x) all that apply.) Each agency identified is required to receive a copy of the reporting package.

84	<input checked="" type="checkbox"/>	Department of Education
----	-------------------------------------	-------------------------

*In addition, one copy each of the reporting package is required for:*

- 1 .....the Federal Audit Clearinghouse archives
- 0 .....and, if not marked above, the cognizant agency (if identified in Part I, Item 9)
- 2 .....Total number of reporting packages to be submitted



**Form SF-SAC(3-20-2001) OMB #0348-0057**

**Report ID : 55514**

<b>Part III: FEDERAL PROGRAMS Continued</b>									
<b>10. FEDERAL AWARDS EXPENDED DURING FISCAL YEAR</b>								<b>11. AUDIT FINDINGS</b>	
Row	10a. CFDA Number		10b. Research and development	10c. Name of Federal Program	10d. Amount expended in Whole Numbers	10e. Direct Award	10f. Major program	11a. Type of compliance requirement (3)	11b. Audit finding reference #(s) (4)
	Federal Agency Prefix (1)	Extension (2)							
1	84.007		<input checked="" type="checkbox"/> N	FEDERAL SUPPLEMENTAL EDUCATIONAL OPPORTUNITY PROGRAM	\$ 449170 .00	<input checked="" type="checkbox"/> Y	<input checked="" type="checkbox"/> Y	N	02-1
2	84.032		<input checked="" type="checkbox"/> N	FEDERAL FAMILY EDUCATION LOAN PROGRAM	\$ 15024037 .00	<input checked="" type="checkbox"/> Y	<input checked="" type="checkbox"/> Y	N	02-1
3	84.033		<input checked="" type="checkbox"/> N	FEDERAL WORK STUDY PROGRAM	\$ 384950 .00	<input checked="" type="checkbox"/> Y	<input checked="" type="checkbox"/> Y	N	02-1
4	84.038		<input checked="" type="checkbox"/> N	FEDERAL PERKINS LOAN PROGRAM	\$ 178961 .00	<input checked="" type="checkbox"/> Y	<input checked="" type="checkbox"/> Y	N	02-1
5	84.063		<input checked="" type="checkbox"/> N	FEDERAL PELL GRANT PROGRAM	\$ 10762714 .00	<input checked="" type="checkbox"/> Y	<input checked="" type="checkbox"/> Y	N	02-1

6	84.048	<input checked="" type="checkbox"/> N	VOCATIONAL EDUCATION BASIC GRANTS TO STATES	\$ 132384 .00	<input checked="" type="checkbox"/> Y	<input checked="" type="checkbox"/> N	O	N/A
7	84.002	<input checked="" type="checkbox"/> N	ADULT BASIC AND LITERACY EDUCATION	\$ 517885 .00	<input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> N	O	N/A
8	84.243	<input checked="" type="checkbox"/> N	TECH-PREP EDUCATION	\$ 91044 .00	<input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> N	O	N/A
9	93.143	<input checked="" type="checkbox"/> N	NIEHS HAZARDOUS SUBSTANCES BASIC RESEARCH & EDUCATION	\$ 879 .00	<input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> N	O	N/A
10	17.258	<input checked="" type="checkbox"/> N	WORKFORCE INVESTMENT ACT OF 1998	\$ 78865 .00	<input checked="" type="checkbox"/> N	<input checked="" type="checkbox"/> N	O	N/A
11	84.038	<input checked="" type="checkbox"/> N	FEDERAL PERKINS LOAN OUTSTANDING	\$ 832993 .00	<input checked="" type="checkbox"/> Y	<input checked="" type="checkbox"/> Y	N	02-1
<b>Computer Generated Total Federal Awards Expended:</b>			<b>\$ 28453882</b>					
<b>TOTAL FEDERAL AWARDS EXPENDED</b>			<b>\$28453882</b>					

\*Footnotes for Part 3 - Item 10 and Item 11

1. See Appendix 1 of instructions for valid Federal Agency two-digit prefixes.
2. Or other identifying number when the Catalog of Federal Domestic Assistance (CFDA) number is not available.
3. Enter the letter(s) of all type(s) of compliance requirement(s) that apply to audit findings (i.e., noncompliance, reportable conditions (including material weakness), questioned costs, fraud, and other items reported under §.510(a)) reported for each Federal program.

- |   |  |                                 |
|---|--|---------------------------------|
| A. Activities allowed or unallowed        | G. Matching, level of effort,                          | L. Reporting                    |
| B. Allowable costs/cost principles        | earmarking   | M. Subrecipient monitoring      |
| C. Cash management                        | H. Period of availability of funds                     | N. Special tests and provisions |
| D. Davis-Bacon Act                        | I. Procurement   | O. None                         |
| E. Eligibility                            | J. Program income                                      | P. Other                        |
| F. Equipment and real property management | K. Real property acquisition and relocation assistance |                                 |

4. N/A for None.

**Form SF-SAC(3-20-2001) OMB #0348-0057**

**Form SF-SAC Data Collection Form for Fiscal Year Ending 2001+**

**Report ID : 55514**

**No EINS have been entered on Page 4.**



STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**OWENS 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  
DECEMBER 5, 2002**