

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

Financial Statements
with Additional Information
June 30, 2004 and 2003



**Auditor of State
Betty Montgomery**

Board of Trustees
Owens State Community College

We have reviewed the Independent Auditor's Report of the Owens State Community College, Wood County, prepared by Plante & Moran, PLLC for the audit period July 1, 2003 through June 30, 2004. 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 cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

December 2, 2004

This Page is Intentionally Left Blank.

Owens State Community College

(A Component Unit of the State of Ohio)

Contents

	Page
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-10
Basic Financial Statements	
Statement of Net Assets	11
Statement of Revenues, Expenses, and Changes in Net Assets	12
Statement of Cash Flows	13-14
Balance Sheet – Discretely Presented Component Unit – Foundation	15
Statement of Revenues, Expenses and Changes in Net Assets – Discretely Presented Component Unit - Foundation	16
Notes to the Financial Statements	17-31
Supplemental Information	
Report Letter on Compliance with Laws and Regulations and Internal Control – Basic Financial Statements	32-33
Report Letter on Compliance with Laws and Regulations and Internal Control – Major Federal Awards	34-35
Schedule of Expenditures of Federal Awards	36-37
Notes to Schedule of Expenditures of Federal Awards	38
Schedule of Findings and Questioned Costs	39-40

This Page is Intentionally Left Blank.



Plante & Moran, PLLC

3434 Granite Circle
P.O. Box 353090
Toledo, OH 43635-3090
Tel: 419.843.6000
Fax: 419.843.6099
plantemoran.com

Independent Auditor's Report

Board of Trustees
Owens State Community College

We have audited the accompanying statement of net assets of Owens State Community College and its discretely presented component unit as of June 30, 2004 and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. 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. The financial statements of Owens State Community College and its discretely presented component unit as of June 30, 2003, were audited by other auditors whose report dated September 17, 2003, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 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 State Community College and its discretely presented component unit as of June 30, 2004, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

For the year ended June 30, 2004, Owens State Community College adopted Governmental Accounting Standards Board Statement No. 39 – "Determining Whether Certain Organizations Are Component Units". The impact of this statement was to bring in its component unit – the Owens Community College Foundation as discretely presented. The Foundation follows a different basis of accounting and therefore, is disclosed on a separate page to the financial statements.

A member of



A worldwide association of independent accounting firms

Board of Trustees
Owens State Community College

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2004 on our consideration of Owens State Community College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. 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 opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are not a required part of the basic financial statements. Such information has been subjected to the procedures applied in the audit of the basic financial statements and in opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Management's Discussion and Analysis presented on pages 3 through 10 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

September 10, 2004

Owens State Community College

(A Component Unit of the State of Ohio)

Management Discussion and Analysis

The management discussion and analysis (MDA) of Owens State Community College's (the College) financial statements provide an overview of the College's operations for the fiscal years ended June 30, 2004 and 2003. 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.

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.

The financial statements report Owens State 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 nonfinancial 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.

Another important factor to consider when evaluating the College's financial viability is its ability to meet financial obligations as they mature. The Statement of Cash Flows presents the information related to cash inflows and outflows summarized by operating, investing, capital, and noncapital financing activities and illustrates the College's sources and uses of cash.

Financial Highlights

The net assets by category for fiscal years 2004 and 2003 are shown below. In the aggregate, the net assets increased by \$6.6 million from fiscal year 2003.

	Net assets			
	Invested in Capital Assets	Restricted (for loans)	Unrestricted	Total Net Assets
FY 2004	\$ 60,643,572	\$ 106,676	\$ 19,587,074	\$ 80,337,322
FY 2003	\$ 53,343,636	\$ 106,676	\$ 20,229,718	\$ 73,680,030

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

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

Management Discussion and Analysis

A summarization of the College's assets, liabilities, and net assets at June 30, 2004 and 2003 follows:

	<u>2004</u>	<u>2003</u>
Assets:		
Current assets	\$ 42,616,024	\$ 38,872,366
Capital assets	60,643,572	53,343,636
Notes receivable	<u>686,927</u>	<u>730,613</u>
Total assets	103,946,523	92,946,615
Liabilities:		
Current liabilities	21,597,798	17,237,957
Noncurrent liabilities	<u>2,011,403</u>	<u>2,028,628</u>
Total liabilities	<u>23,609,201</u>	<u>19,266,585</u>
Net assets:		
Invested in capital assets	60,643,572	53,343,636
Restricted	106,676	106,676
Unrestricted	<u>19,587,074</u>	<u>20,229,718</u>
Total net assets	<u>\$ 80,337,322</u>	<u>\$ 73,680,030</u>

The increase in current assets occurred because of increased summer and fall pre-enrollments.

As further discussed in the Capital Assets section of this document, capital assets increased primarily due to the completion of the Center for Fine and Performing Arts facility during the year and the commencement of construction of a new campus in Findlay, Ohio. The Ground Breaking Ceremony was also held for the Homeland Security Center, however construction will not commence until the fourth quarter of 2004.

The increase in current assets and liabilities was also partly due to an increase in the state construction receivables/payables.

Owens State Community College

(A Component Unit of the State of Ohio)

Management Discussion and Analysis

A summarization of the College's revenues, expenses, and changes in net assets for the years ended June 30, 2004, and 2003 follows:

	<u>2004</u>	<u>2003</u>
Operating revenues:		
Student tuition and fees	\$ 18,905,773	\$ 17,810,827
Grants – federal, state, local	21,102,132	20,612,798
Sales and service	185,444	153,829
Auxiliary activities	6,917,645	6,714,197
Other operating revenues	<u>644,218</u>	<u>351,520</u>
Total operating revenues	47,755,212	45,643,171
Operating expenses:		
Educational and general	71,775,020	69,780,738
Depreciation	3,314,325	3,040,099
Auxiliary enterprises	<u>6,548,797</u>	<u>6,420,317</u>
Total operating expenses	<u>81,638,142</u>	<u>79,241,154</u>
Operating loss	<u>(33,882,930)</u>	<u>(33,597,983)</u>
Nonoperating revenues:		
State appropriations	32,246,983	31,484,662
Other nonoperating revenues and expenses	<u>303,645</u>	<u>409,376</u>
Total nonoperating revenues	<u>32,550,628</u>	<u>31,894,038</u>
Loss before other revenues, expenses	(1,332,302)	(1,703,945)
Capital appropriations and grants	<u>7,989,594</u>	<u>5,904,211</u>
Increase in net assets	6,657,292	4,200,266
Net assets:		
Net assets - beginning of year	<u>73,680,030</u>	<u>69,479,764</u>
Net assets - end of year	<u>\$ 80,337,322</u>	<u>\$ 73,680,030</u>

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 119.2% and the FTE (full-time equivalent) increased by 127.3%. For the Fall Semester 2004 the headcount of 20,160 represented a 2.8% increase while for the Fall Semester 2003, the headcount of 19,615 represented a 6.2% increase. The FTE's for Fall 2004 and Fall 2003 were 5,634 and 5,379, respectively, and represented increases of 4.7% and 7.0%, respectively.

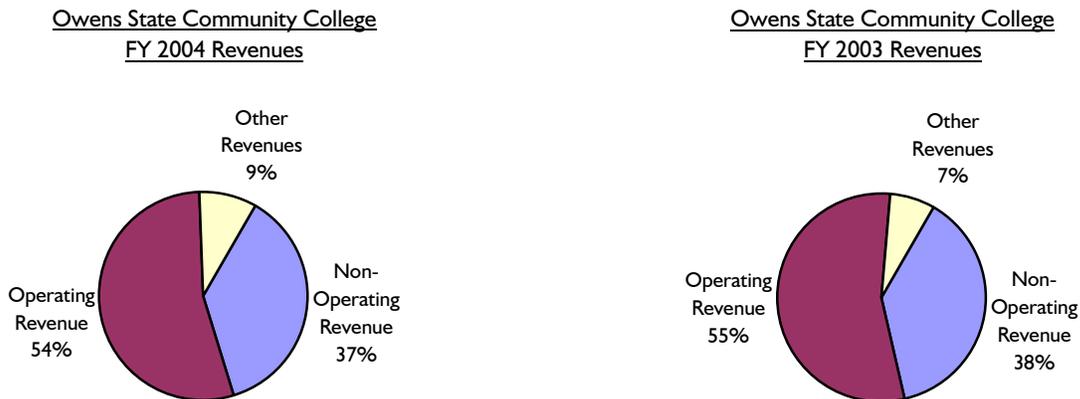
Owens State Community College

(A Component Unit of the State of Ohio)

Management Discussion and Analysis

The College's two major sources of revenue are: tuition and fees – operating revenue; and the State share of instruction – nonoperating revenue. Both types of revenue are tied 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 sets forth below present total revenues by category for the fiscal years ended June 30, 2004 and 2003.



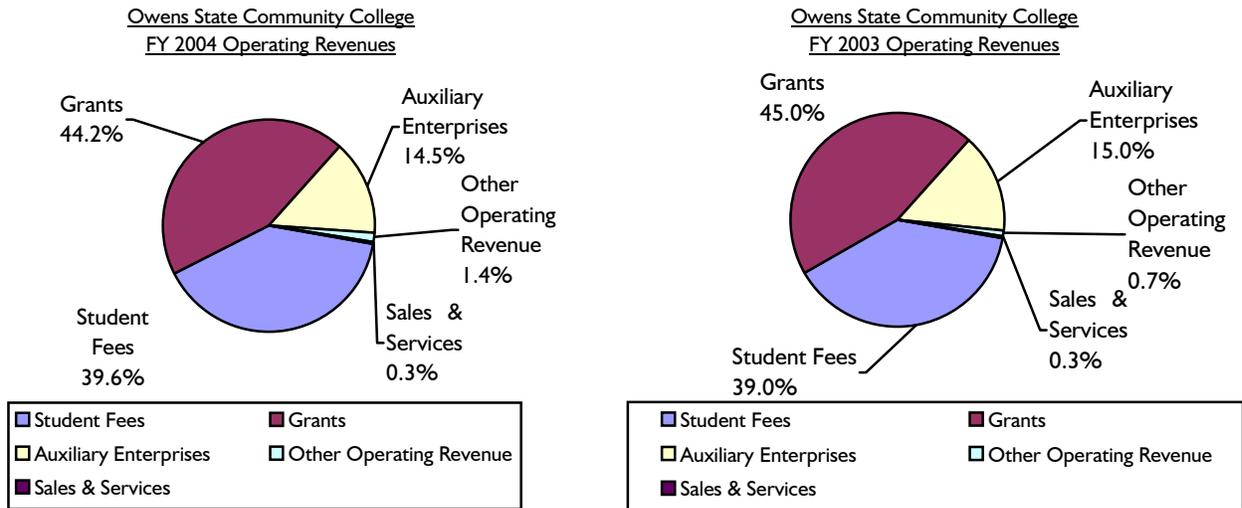
Owens State Community College

(A Component Unit of the State of Ohio)

Management Discussion and Analysis

Operating Revenue

The chart set forth below reflects the College's operating revenue for the fiscal years ended June 30, 2004 and 2003.



While the College's enrollment increased and the tuition and fees increased, the financial aid discount increased substantially, resulting in an increase in grants. The College fee that students were assessed on a per credit hour basis for fiscal year 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 was again increased to \$95 per credit hour. Effective for Summer 2003 (fiscal year 2004), the per credit hour fee was increased to \$100.75. Effective for Summer 2004 (fiscal year 2005), the per credit hour fee increased to \$110.

The three recent increases in tuition were due to the fact that the State of Ohio reduced the College's operating appropriation by 10.5% during the last three fiscal years. During this same time period, the College grew by 35.9% in student FTE. The board of trustees and administration were jointly concerned as to the potential negative impact that faced the budget without the increase in tuition. It is to be noted that although the College raised its fees by 34.3% since the increases from \$75, the College offers a lower tuition rate per hour than other Toledo-area colleges.

Auxiliary service activities (including food services, bookstore operations, childcare services, Center for Fine and Performing Arts, advertising, communications and copy center) increased primarily due to additional textbook sales due to overall enrollment growth.

Owens State Community College

(A Component Unit of the State of Ohio)

Management Discussion and Analysis

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 and access challenge funds amounted to \$32,246,983 and \$31,484,662 in fiscal years 2004 and 2003, respectively. The amount allocated for fiscal year 2005 is \$37,369,041.

Another component of nonoperating revenue is investment income. Interest rates have continued to decrease. However, the College's cash position has also lessened causing lower interest.

Operating Expense Changes

The College's revenues and operating expenses are closely linked to student enrollment changes. However, the increase in revenues almost matches the increase in expenses. Operating expense increases were experienced in most areas.

Instructional and Departmental Research expense increases are consistent with growth patterns and a 3% and 4% salary increase for fiscal years 2004 and 2003, respectively, plus benefits cost for all full-time faculty. An accrual was done at the end of 2004 to allow for a retroactive salary increase of 3% pending final negotiations.

The depreciation expense for fiscal years 2004 and 2003, respectively, was \$3,314,325 and \$3,040,099.

Capital Assets

At June 30, 2004 and 2003, respectively, the College had \$60,643,572 and \$53,343,636 invested in capital assets.

The details of the capital assets at June 30, 2004 and 2003, respectively, are shown below.

	<u>2004</u>	<u>2003</u>
Land and land improvements	\$ 11,372,839	\$ 10,964,271
Buildings	71,479,569	70,135,051
Equipment	15,934,943	23,242,213
Less accumulated depreciation	<u>(46,862,013)</u>	<u>(51,552,742)</u>
Net of depreciation	51,925,338	52,788,793
Construction in progress	<u>8,718,234</u>	<u>554,843</u>
Totals	<u>\$ 60,643,572</u>	<u>\$ 53,343,636</u>

Owens State Community College

(A Component Unit of the State of Ohio)

Management Discussion and Analysis

The major capital project for fiscal year 2004 is the construction of the relocation site of the Findlay Campus, 3200 Bright Road, Findlay, in Hancock County, which began in November 2003. The new site will be opened for classes in Fall 2005. The Findlay Education Center land purchase (FY 03) and Phase I construction has a total project budget of \$17,746,360. State funding of \$1,200,000 was expended in fiscal year 2003 for the purchase of the 60-acre parcel. State funding of \$8,746,360 from HB 675 CAP 037, and \$800,000 from HB 524 CAP 035 will be dedicated to construction contracts, of \$9,458,897, with \$87,463 or 1% set aside for Art project. The College's share of the remaining cost will come from unexpended net assets of \$7,000,000. Since the start of the project, \$8,644,484 was expended in fiscal years 2004 and 2003. This new facility will be 119,407 gross square feet and will include classrooms, laboratories and offices. The College also received State funding for a stand-alone \$250,600 Child Care Center of 2,400 square feet, and this will also be opened in 2005.

On the Toledo-area Campus in Perrysburg, Wood County, Poggemeyer Design Group was contracted to design a master plan for the Fire and Police Training Center for Homeland Security project on 110 acres. This project will be phased in from FY 2005 through FY 2008/2010, and has a total project budget of \$10 million. Phase I will see the construction of infrastructure to include waterlines, sanitary sewers, storm sewers, storm water management ponds, earthwork, roads and parking lots, site lighting and power, conduit for communications, and security fencing, to begin October 2004 and completed in July 2005. The phase I project budget is \$3,384,000 with State funding of \$1,145,610 from HB 675 CAP 038 to be dedicated to construction contracts.

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

Cash Flow

Information on the cash flows of the College for 2004 and 2003 follows:

	<u>2004</u>	<u>2003</u>
Net cash used in operating activities	\$ (32,096,513)	\$ (30,544,627)
Net cash provided by noncapital financing activities	32,246,983	31,484,662
Net cash used in capital and related financing activities	(3,965,076)	(1,916,128)
Net cash provided by (used in) investing activities	<u>(5,485,306)</u>	<u>408,906</u>
Net decrease in cash	(9,299,912)	(567,187)
Cash – beginning of the year	<u>21,115,176</u>	<u>21,682,363</u>
Cash – end of year	<u>\$ 11,815,264</u>	<u>\$ 21,115,176</u>

Major sources of funds from operations came from student tuition and fees, grants and auxiliary enterprises. These sources were offset by expenditures for operations such as payments to suppliers and employees. The change in cash received from operating activities result from the increase in students, decrease in state grant funding and an increase in salaries, wages and benefits overall.

Owens State Community College

(A Component Unit of the State of Ohio)

Management Discussion and Analysis

State operating appropriations make up the noncapital financing activities.

Cash used by capital and related financing activities consists of receipts of state capital appropriations offset by expenditures for the purchase of capital assets. The expenditure for purchase of capital assets has increased due to construction on the Findlay campus.

The cash outflow of investing activities resulted from the purchase of investments of approximately \$9,300,000 offset by proceeds from sales of investments of approximately \$3,800,000.

Factors Impacting Future Periods

As has been the case in the previous year, the economic outlook for the College is closely tied to the national and state economic conditions. The state has cut funding for the College by 1 percent in 2001, 6 percent in 2002 and 6 percent in 2003. During that same time period, FTE increased from 8,160 in 2001 to 10,895 in 2004 which results in an appropriation funds decrease from \$4,327 per FTE in 2001 to \$2,960 per FTE in 2004. These funding cuts continue to put financial pressure on the College.

To compensate for these cuts, the College has instituted increases in fees, following state guidelines on maximum increases. Even with these increases, significant shortfalls in overall revenue per FTE student continues and even with promised increases in fiscal year 2005, the College may still fall short of its fiscal year 2001 funding level.

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

Statement of Net Assets

	June 30	
	2004	2003
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 11,815,264	\$ 21,115,176
Investments (Note 2)	5,749,849	33,050
Accounts receivable, net (Note 3)	21,288,285	15,651,801
Receivable from Foundation	30,275	42,641
Prepaid expenses and deferred charges	2,598,486	929,533
Deposits	22,005	22,005
Inventories	990,638	969,622
Student loans receivable, net	121,222	108,538
Total current assets	<u>42,616,024</u>	<u>38,872,366</u>
Noncurrent Assets		
Capital assets, net (Note 10)	60,643,572	53,343,636
Student loans receivable, net (Note 4)	686,927	730,613
Total noncurrent assets	<u>61,330,499</u>	<u>54,074,249</u>
Total assets	<u>\$ 103,946,523</u>	<u>\$ 92,946,615</u>
Liabilities and Net Assets		
Liabilities		
Current liabilities:		
Accounts payable (Note 5)	\$ 3,105,587	\$ 1,314,196
Salaries, wages and fringe benefits payable	4,165,429	3,343,861
Deferred revenue	13,851,018	12,441,055
Deposits held for others	475,764	138,845
Total current liabilities	<u>21,597,798</u>	<u>17,237,957</u>
Noncurrent Liabilities		
Benefits payable (Note 13)	1,151,937	1,043,414
Federal student loans (Note 13)	712,142	837,890
Non-federal student loans (Note 13)	147,324	147,324
Total noncurrent liabilities	<u>2,011,403</u>	<u>2,028,628</u>
Total liabilities	23,609,201	19,266,585
Net Assets		
Invested in capital assets	60,643,572	53,343,636
Restricted for expendable assets (Note 14)	106,676	106,676
Unrestricted (Note 14)	19,587,074	20,229,718
Total net assets	<u>80,337,322</u>	<u>73,680,030</u>
Total liabilities and net assets	<u>\$ 103,946,523</u>	<u>\$ 92,946,615</u>

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

Statement of Revenues, Expenses and Changes in Net Assets

	Year Ended June 30	
	2004	2003
Revenues		
Operating Revenues:		
Student tuition and fees - net of scholarship allowances of \$16,006,908 (2004); \$12,036,544 (2003)	\$ 18,905,773	\$ 17,810,827
Grants - Federal, State, Local	21,102,132	20,612,798
Sales and services	185,444	153,829
Auxiliary enterprises - net of scholarship allowances of \$334,230 (2004); \$344,040 (2003)	6,917,645	6,714,197
Other operating revenues	644,218	351,520
Total operating revenues	<u>47,755,212</u>	<u>45,643,171</u>
Operating Expenses		
Educational and General:		
Instructional and departmental research	35,991,974	32,699,777
Institutional research	223,447	185,218
Public service	2,264,900	2,742,641
Academic support	3,144,249	4,026,298
Student services	5,970,787	5,516,451
Institutional support	11,659,870	9,820,790
Operation and maintenance of plant	8,160,054	8,094,998
Scholarships and other student aid (net of scholarship allowances)	4,359,739	6,694,565
Depreciation	3,314,325	3,040,099
Auxiliary enterprises - net of scholarship allowances	6,548,797	6,420,317
Total operating expenses	<u>81,638,142</u>	<u>79,241,154</u>
Operating loss	(33,882,930)	(33,597,983)
Nonoperating Revenues		
State appropriations	32,246,983	31,484,662
Investment income	303,645	409,376
Net nonoperating revenues	<u>32,550,628</u>	<u>31,894,038</u>
Loss before other revenues, expenses, gains, or losses	(1,332,302)	(1,703,945)
Capital appropriations	7,989,594	5,888,495
Capital grants	-	15,716
Total other revenues	<u>7,989,594</u>	<u>5,904,211</u>
Increase in net assets	6,657,292	4,200,266
Net Assets		
Net assets - beginning of year	73,680,030	69,479,764
Net assets - end of year	<u><u>\$ 80,337,322</u></u>	<u><u>\$ 73,680,030</u></u>

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

Statement of Cash Flows

	Year Ended June 30	
	2004	2003
Cash Flows from Operating Activities		
Student tuition and fees	\$ 16,916,450	\$ 17,635,971
Grants – federal, state, local	18,326,232	20,889,260
Payments to suppliers, students, and others	(25,068,938)	(29,781,961)
Payments to employees	(50,469,263)	(46,873,216)
Auxiliary enterprises	6,920,682	7,055,305
Sales and services	185,443	153,829
Student loans granted, net of loans collected	-	(4,361)
Other receipts	1,092,881	380,546
Net cash used in operating activities	(32,096,513)	(30,544,627)
Cash Flows from Noncapital Financing Activities		
State appropriations	32,246,983	31,484,662
Cash Flows from Capital and Related Financing Activities		
Capital appropriations	6,649,186	6,601,610
Capital grants and gifts received	-	15,716
Purchases of capital assets	(10,614,262)	(8,533,454)
Net cash used in capital and related financing activities	(3,965,076)	(1,916,128)
Cash Flows from Investing Activities		
Interest on investments	285,641	409,376
Purchase of investments	(9,350,532)	
Proceeds from sale and maturity of investments	3,579,585	(470)
Net cash provided by (used in) investing activities	(5,485,306)	408,906
Net decrease in cash	(9,299,912)	(567,187)
Cash – beginning of the year	<u>21,115,176</u>	<u>21,682,363</u>
Cash – end of year	<u>\$ 11,815,264</u>	<u>\$ 21,115,176</u>

Reconciliation of net operating revenues (expenses) to net cash from

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

Statement of Cash Flows

	Year Ended June 30	
	2004	2003
operating activities:		
Operating loss	\$ (33,882,930)	\$ (33,597,983)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	3,314,325	3,040,099
Changes in assets and liabilities:		
Receivables, net	(4,265,705)	(4,599,122)
Inventories	(21,016)	51,527
Prepaid expenses and deferred charges	(1,668,952)	1,190,796
Notes receivable, net	31,000	(263,258)
Accounts payable	1,791,391	(1,073,846)
Salaries, wages, and benefits payable	930,092	568,197
Deferred revenue	1,409,963	3,851,040
Federal and non-federal student loans payable	(71,600)	258,897
Deposits held for others	336,919	29,026
Net cash used in operating activities	<u>\$ (32,096,513)</u>	<u>\$ (30,544,627)</u>

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

Balance Sheet
Discretely Presented Component Unit
Foundation

		June 30	
		2004	2003
Assets			
Cash and cash equivalents	\$	194,128	\$ 396,414
Investments		1,077,958	582,234
Pledges receivable		48,277	57,268
Accounts receivable		-	1,356
Land		68,806	68,806
Total assets		\$ 1,389,169	\$ 1,106,078
Liabilities and Net Assets			
Accounts Payable	\$	30,275	\$ 42,641
Deferred Revenue		389	-
Funds in Custody (Agency Funds)		55,641	24,499
Total liabilities		86,305	67,140
Net assets:			
Invested in capital assets		68,806	68,806
Restricted:			
Nonexpendable - scholarships		698,880	548,511
Expendable:			
Scholarships		334,590	230,278
Program/Department support		128,119	114,163
Unrestricted		72,469	77,180
Total net assets		1,302,864	1,038,938
Total liabilities and net assets		\$ 1,389,169	\$ 1,106,078

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

**Statement of Revenues, Expenses and
Changes in Net Assets
Discretely Presented Component Unit
Foundation**

	Year Ended June 30	
	2004	2003
Revenue and support:		
Donations received	\$ 551,894	\$ 279,692
Other Revenue	68,611	15,000
Investment income (loss):		
Interest and dividend income	28,688	12,799
Unrealized gain (loss) on investments	73,292	(40,682)
Realized gain/(loss) on investments	12,025	88,330
Total revenue and support	734,510	355,139
Expenses:		
Program services:		
Scholarships	69,860	69,575
Equipment grant	305,613	22,317
Outside grants expense	49,612	-
Other program services	3,238	5,737
Total program services	428,323	97,629
Management and general	42,261	42,462
Total expenses	470,584	140,091
Increase (decrease) in net assets	263,926	215,048
Net assets – beginning of year	1,038,938	823,890
Net assets – end of year	\$ 1,302,864	\$ 1,038,938

Owens State Community College

(A Component Unit of the State of Ohio)

Notes to Financial Statements

June 30, 2004 and 2003

(I) Summary of Significant Accounting Policies

(a) Organization

Owens State 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 College is financially accountable.

The Owens Community College Foundation is being discretely reported as part of the College reporting entity (although it is a legally separate entity and governed by its own Board of Directors) because its sole purpose is to provide support for the College. This is being done for the first time this year in accordance with GASB Statement No. 39. Separate statements for the Foundation may be obtained through the State of Ohio Auditor's web site.

(b) Financial Statement Presentation

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 No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. 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;
- 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.

Owens State Community College

(A Component Unit of the State of Ohio)

Notes to Financial Statements June 30, 2004 and 2003

(I) Summary of Significant Accounting Policies (Continued)

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 are 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.

(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. Non-publicly 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 revenues, expenses, and changes in net assets.

Owens State Community College

(A Component Unit of the State of Ohio)

Notes to Financial Statements June 30, 2004 and 2003

(I) Summary of Significant Accounting Policies (Continued)

(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) 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.

(h) 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 one year. Renovations to buildings that exceed 5% of the cumulative building cost are capitalized. Infrastructure and improvements, other than to buildings, are capitalized if the cost exceeds \$100,000. 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 to 10 years
Buildings	40 years
Building improvements	15 to 20 years
Equipment	5 to 10 years
Computers, hardware, and software	3 to 10 years
Vehicles	5 years
Furniture and accessories	5 to 10 years

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

(i) 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. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

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

Notes to Financial Statements
June 30, 2004 and 2003

(I) Summary of Significant Accounting Policies (Continued)

(j) *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 10 years or more of service may receive one-fourth of his or her accumulated unused sick leave up to a maximum of 65 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.

(k) *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 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.

(l) *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.

(m) *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.

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

Notes to Financial Statements
June 30, 2004 and 2003

(1) Summary of Significant Accounting Policies (Continued)

(n) 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.

(o) 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).

(p) 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.

(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, 2004 and 2003, were as follows:

	2004	2003
Cash	\$ 11,815,264	\$ 21,115,176
Investments	5,749,849	33,050
	<u>\$ 17,565,113</u>	<u>\$ 21,148,226</u>

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

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

Notes to Financial Statements
June 30, 2004 and 2003

(2) Cash and Investments (Continued)

(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, 2004, the carrying amount of the College's cash and cash equivalents for all funds was \$11,815,264. The difference in the carrying amount and the bank balance of \$13,634,531 is caused by items in transit and outstanding checks. Of the bank balance, \$494,804 was covered by federal depository insurance and \$11,320,460 was uncollateralized (category 3). All uncollateralized deposits are covered by a pledged collateral pool.

At June 30, 2003, the carrying amount of the College's cash and cash equivalents for all funds was \$21,115,176. The difference in the carrying amount and the bank balance of \$22,345,157 is caused by items in transit and outstanding checks. Of the bank balance, \$566,947 was covered by federal depository insurance and \$21,778,210 was uncollateralized (category 3). All uncollateralized deposits are covered by a pledged collateral pool.

Investments at June 30, 2004 and 2003 consist of investments in STAR Ohio of \$33,384 and \$33,050, respectively. GASB Statement No. 3 does not require STAR Ohio's assets to be categorized. Also included in investments are two Freddie Mac and two Federal Home Loan securities with market value at June 30, 2004 of \$5,716,645. The governmental agency investments other than STAR Ohio, fall under category #1 above for investments.

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, 2004 and 2003.

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

Notes to Financial Statements
June 30, 2004 and 2003

(2) Cash and Investments (Continued)

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

	2004	2003
Bond Mutual Fund	\$ 330,959	\$ 197,115
Equity Mutual Fund	746,959	385,079
Coins	40	40
Totals	\$ 1,077,958	\$ 582,234

(3) Accounts Receivable

The composition of accounts receivable at June 30, 2004 and 2003 is summarized as follows:

	2004	2003
Student receivables for fees and auxiliary services	\$ 16,838,840	\$ 15,032,351
Allowance for doubtful accounts	(1,608,373)	(1,408,764)
Grants – federal, state, local	4,187,795	1,411,895
Capital appropriations	1,389,804	49,396
Interest receivable	18,005	-
Other	462,214	566,923
Totals	\$ 21,288,285	\$ 15,651,801

(4) Student Loans Receivable

Student loans receivable at June 30, 2004 and 2003 include an allowance for doubtful loans of \$253,186 and \$255,141 respectively. Principal repayment and interest rate terms of federal and non-federal loans vary considerably. Federal loan programs are funded principally with federal contributions to the College under the Perkins program. Non-federal loan programs are funded principally with local grants to the College under these programs.

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

Notes to Financial Statements
June 30, 2004 and 2003

(5) Accounts Payable

The composition of accounts payable at June 30, 2004 and 2003 is summarized as follows:

	2004	2003
Trade payables	\$ 1,715,783	\$ 1,264,800
Construction payables	1,389,804	49,396
	\$ 3,105,587	\$ 1,314,196

(6) 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 balance sheet. 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, 2004 and 2003, construction in progress on such new facilities was \$8,718,234 and \$554,843, respectively, 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 \$7,060,849 and \$12,978,166, respectively.

Owens State Community College

(A Component Unit of the State of Ohio)

Notes to Financial Statements June 30, 2004 and 2003

(7) 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 2004, SERS employees contributed 10% of their salary to the plan, and the College contributed 14% of covered payrolls to the plan. The total employer contributions to SERS for the years ended June 30, 2002, 2003 and 2004 were approximately \$1,523,000, \$1,601,000 and \$1,783,473, respectively, which were equal to the required contributions for each year.

STRS: The ORC provides statutory authority for employee and employer contributions. During 2004, STRS employees contributed 10% of their salary to the plan, and the College contributed 14% of covered payrolls to the plan. The total employer contributions to STRS for the years ended June 30, 2002, 2003 and 2004 were approximately \$2,550,000, \$3,004,000 and \$3,195,909, 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 State 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 (10% 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, 2002, 2003, and 2004 were approximately \$29,000, \$49,000 and \$57,824, respectively.

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

Notes to Financial Statements
June 30, 2004 and 2003

(8) Post Employment Benefits Other Than Pension Benefits

In addition to the pension benefits described in note 7, the Ohio Revised Code provides the statutory authority requiring the College to fund postretirement healthcare through employer contributions to SERS and STRS.

(a) SERS

SERS provides postretirement healthcare coverage to age-and-service retirants with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Healthcare coverage for disability recipients is available. The healthcare 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 healthcare. The Ohio Revised Code provides statutory authority for employer contributions. The 2004 and 2003 employer contribution rate for state employers was 14% of covered payroll; 5.8% was the portion that was used to fund healthcare for the year ended June 30, 2003.

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

For the year ended June 30, 2003, expenditures for OPEB's as a whole for SERS were \$204.9 million. As of June 30, 2003, the audited net assets available for future OPEB payments were \$303.6 million. The number of eligible benefit recipients for SERS was 50,000.

Owens State Community College

(A Component Unit of the State of Ohio)

Notes to Financial Statements June 30, 2004 and 2003

(8) Post Employment Benefits Other Than Pension Benefits (Continued)

(b) STRS

STRS provides comprehensive healthcare 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 healthcare coverage. Pursuant to the ORC, STRS has discretionary authority over how much, if any, of the healthcare costs will be absorbed by STRS. Most benefit recipients pay a portion of the healthcare 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 1.0% of covered payroll to the Health Care Reserve Fund, from which payments for healthcare benefits are paid. The balance in the Health Care Reserve Fund was approximately \$2.8 billion at June 30, 2003. The Health Care Reserve Fund allocation for the year ended June 30, 2003 will be 4.5% of covered payroll.

For the year ended June 30, 2003, the net healthcare costs paid by the STRS system as a whole were \$352.3 million. There were 108,294 eligible benefit recipients.

(9) 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 State Community College
(A Component Unit of the State of Ohio)

Notes to Financial Statements
June 30, 2004 and 2003

(10) Capital Assets

Capital asset activity for the years ended June 30, 2004 and 2003 was as follows:

	Balance June 30, 2003	Additions	Retirements	Balance June 30, 2004
Nondepreciated capital assets:				
Land	\$ 4,604,958	\$ -	\$ -	\$ 4,604,958
Construction in progress	554,843	8,163,392	-	8,718,235
	5,159,801	8,163,392	-	13,323,193
Other capital assets:				
Land improvements	6,359,313	408,568	-	6,767,881
Buildings	70,135,051	1,344,519	-	71,479,570
Equipment	9,457,126	471,962	(3,024,804)	6,904,284
Computers, hardware, and software	11,274,155	211,646	(4,010,857)	7,474,944
Vehicles	1,270,390	14,175	(98,905)	1,185,660
Furniture and accessories	1,240,542	-	(870,488)	370,054
	99,736,577	2,450,870	(8,005,054)	94,182,393
Total capital assets	104,896,378	10,614,262	(8,005,054)	107,505,586
Accumulated depreciation:				
Land improvements	(5,622,292)	(272,377)	-	(5,894,669)
Buildings	(23,959,403)	(2,120,492)	-	(26,079,895)
Equipment	(8,448,738)	(682,658)	3,024,804	(6,106,592)
Computers, hardware, and software	(11,194,552)	(123,139)	4,010,857	(7,306,834)
Vehicles	(1,175,110)	(66,480)	98,905	(1,142,685)
Furniture and accessories	(1,152,647)	(49,180)	870,488	(331,339)
Total accumulated depreciation	(51,552,742)	(3,314,326)	8,005,054	(46,862,014)
Total capital assets, net	\$ 53,343,636	\$ 7,299,936	\$ -	\$ 60,643,572

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

Notes to Financial Statements
June 30, 2004 and 2003

(10) Capital Assets (Continued)

	Balance June 30, 2002	Additions	Retirements	Balance June 30, 2003
Nondepreciated capital assets:				
Land	\$ 3,404,958	\$ 1,200,000	\$ -	\$ 4,604,958
Construction in progress	4,428,124	554,843	4,428,124	554,843
	<u>7,833,082</u>	<u>1,754,843</u>	<u>4,428,124</u>	<u>5,159,801</u>
Other capital assets:				
Land improvements	5,961,511	397,802	-	6,359,313
Buildings	59,453,083	10,681,968	-	70,135,051
Equipment	9,419,325	37,801	-	9,457,126
Computers, hardware, and software	11,233,075	41,079	-	11,274,154
Vehicles	1,222,306	48,085	-	1,270,391
Furniture and accessories	1,240,542	-	-	1,240,542
	<u>88,529,842</u>	<u>11,206,735</u>	<u>-</u>	<u>99,736,577</u>
Total capital assets	96,362,924	12,961,578	4,428,124	104,896,378
Accumulated depreciation:				
Land improvements	(5,257,833)	(364,460)	-	(5,622,293)
Buildings	(22,322,482)	(1,636,921)	-	(23,959,403)
Equipment	(7,928,047)	(520,690)	-	(8,448,737)
Computers, hardware, and software	(10,863,628)	(330,924)	-	(11,194,552)
Vehicles	(1,033,296)	(141,814)	-	(1,175,110)
Furniture and accessories	(1,107,357)	(45,290)	-	(1,152,647)
Total accumulated depreciation	<u>(48,512,643)</u>	<u>(3,040,099)</u>	<u>-</u>	<u>(51,552,742)</u>
Total capital assets, net	<u>\$ 47,850,281</u>	<u>\$ 9,921,479</u>	<u>\$ 4,428,124</u>	<u>\$ 53,343,636</u>

(11) Related Organization

The College is affiliated with the Owens 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 reimbursed the College for certain educational expenses of \$427,184 and \$97,629 in 2004 and 2003, respectively.

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

Notes to Financial Statements
June 30, 2004 and 2003

(12) 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.

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.

(13) Noncurrent Liabilities

Noncurrent liabilities activity for the years ended June 30, 2004 and 2003 was as follows:

	Balance			Amount	
	June 30, 2003	Increases	Decreases	Balance	due within
				June 30, 2004	one year
Benefits payable	\$ 1,075,414	\$ 214,759	\$ 77,607	\$ 1,212,566	\$ 60,629
Non-federal student loans	837,890	77,352	203,100	712,142	-
Federal student loans	147,324	7,679	7,679	147,324	-

	Balance			Amount	
	June 30, 2002	Increases	Decreases	Balance	due within
				June 30, 2003	one year
Benefits payable	\$ 974,000	\$ 161,522	\$ 60,108	\$ 1,075,414	\$ 32,000
Non-federal student loans	601,681	278,652	42,443	837,890	-
Federal student loans	124,636	22,688	-	147,324	-

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

Notes to Financial Statements
June 30, 2004 and 2003

(14) Net Assets

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

	<u>2004</u>	<u>2003</u>
Restricted - expendable:		
Student loans	\$ 106,676	\$ 106,676
Unrestricted:		
Designated	\$ 7,450,498	\$ 5,950,039
Uncommitted	12,136,576	14,279,679
Total	<u>\$ 19,587,074</u>	<u>\$ 20,229,718</u>

Supplemental Information

Report Letter on Compliance with Laws and Regulations and Internal Control - Basic Financial Statements

The Board of Trustees
Owens State Community College

We have audited the financial statements of Owens State Community College as of and for the year ended June 30, 2004 and have issued our report thereon dated September 10, 2004. 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 Community 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 Community 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 the internal control over financial reporting. Our consideration of the 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 of the 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 the internal control over financial reporting and its operation that we consider to be material weaknesses.

The Board of Trustees
Owens Community College

This report is intended solely for the information and use of the finance committee, Board of Trustees, management, 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.

Plante & Moran, PLLC

September 10, 2004

Report Letter on Compliance with Laws and Regulations and
Internal Control - Major Federal Awards

The Board of Trustees
Owens State Community College

Compliance

We have audited the compliance of Owens State Community 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, 2004. The major federal program of Owens State Community College is identified in the summary of auditor's 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 Community College's management. Our responsibility is to express an opinion on the Community 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 Community 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. Our audit does not provide a legal determination on the Community College's compliance with those requirements.

In our opinion, Owens State Community 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, 2004.

The Board of Trustees
Owens Community College

Internal Control Over Compliance

The management of Owens State Community College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Community 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the finance committee, Board of Trustees, management, 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.

Plante & Moran, PLLC

October 7, 2004

Owens Community College

Schedule of Expenditures of Federal Awards Year Ended June 30, 2004

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Project/Grant Number	Federal Expenditures
STUDENT FINANCIAL ASSISTANCE CLUSTER			
U.S. Department of Education - Direct			
Federal Supplemental Educational Opportunity Program (Note 3)	84.007	N/A	\$ 492,176
Federal Family Education Loan Program	84.032	N/A	24,128,437
Federal Work-Study Program (Note 3)	84.033	N/A	433,854
Federal Perkins Loan Program (Note 2)	84.038	N/A	266,993
Federal Pell Grant Program	84.063	N/A	<u>14,543,012</u>
Total Student Financial Assistance Cluster			39,864,472
WIA CLUSTER			
Passed through Wood County Jobs and Family Service Workforce Investment Act of 1998 - Youth Training	17.259		29,718
OTHER PROGRAMS			
U.S. Department of Education			
Vocational Education (Perkins II)	84.048	VECPHIII-P01	367,001
Passed through from the State of Ohio			
Department of Education			
Adult Basic and Literacy Education (ABLE) Grants:			
Adult Basic and Literacy Education	84.002	0748464-AB-SI-04	108,317
Adult Basic and Literacy Education	84.002	074864-AB-SI-03C	8,935
Adult Basic and Literacy Education	84.002	074864-AB-SL-03	5,672
Adult Basic and Literacy Education	84.002	074864-AB-SL-04	249,341
Adult Basic and Literacy Education	84.002	074864-AB-SL-03C	39,724
Adult Basic and Literacy Education - LMHA Grant	84.002		41,561
Adult Basic and Literacy Education - LMHA Computer	84.002		<u>18,500</u>
Total Adult Basic and Literacy Education Grants			472,050
Passed through from University of Toledo			
Technical Preparation	84.243	N/A	46,898
Passed through from the State of Ohio Department of Education			
Para Professional Teaching Assoc Degree	84.367A		<u>660</u>
Total U.S. Department of Education			886,609

Owens Community College

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2004

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Project/Grant Number	Federal Expenditures
National Institute of Health			
Passed through from Toledo Hospital NIH - NHLBI - Cardiovascular Disease Enhanced Dissemination and Utilization Center	83.837		23,977
U.S. Department of Health and Human Services			
Passed through from Hazardous Materials Training Research Institute: NEIHS Hazardous Substances Basic Research & Education	93.143	5U45ES06177-09	2,033
National Science Foundation			
Passed through from the University of Toledo NSF - Alternative Energy	47.076	N/A	25,572
Bureau of Educational and Cultural Affairs			
Passed through the State of Ohio Board of Regents Title II Teacher Quality Enhancement	19.408		1,415
Total expenditures of federal awards			<u>\$ 40,833,796</u>

Owens Community College

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2004

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Owens State Community College and is presented on the same basis of accounting as the basic financial statements. 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*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Loans Outstanding

The institution had the following loan balances outstanding at June 30, 2004. These loan balances are not included in the federal expenditures presented in the schedule.

Cluster/Program Title	CFDA Number	Amount Outstanding
SFA Cluster - Federal Perkins Loan Program	84.038	\$ 1,027,232

Current year Federal Perkins Loan expenditures consist of new loans provided to students. They were funded from past collections of principal and interest within the loan fund. No new federal capital contributions or matching institutional capital contributions were noted during the year ended June 30, 2004.

Note 3 - Adjustments and Transfers

The current year grant award for the Federal Supplemental Educational Opportunity Grant (#84.007) was \$426,689. It was supplemented by a transfer from the Federal Work Study Program (#84.033) of \$64,535.

Owens State Community College

Schedule of Findings and Questioned Costs Year Ended June 30, 2004

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness identified? Yes No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? Yes No
- Reportable condition(s) identified that are not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of major program(s):

CFDA Numbers	Name of Federal Program or Cluster
84.007, 84.032, 84.033, 84.038, 84.063	U.S. Department of Education - Student Financial Assistance Cluster

Dollar threshold used to distinguish between type A and type B programs: \$501,161

Auditee qualified as low risk auditee? Yes No

Owens State Community College

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2004

Section II - Financial Statement Audit Findings

Reference Number	Findings
	None

Section III - Federal Program Audit Findings

Reference Number	Findings
	None



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

**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
DECEMBER 21, 2004**