

Southern State Community College
Highland County
Single Audit
For the Fiscal Years Ended June 30, 2011 and 2010



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Dave Yost • Auditor of State

Board of Trustees
Southern State Community College
100 Hobart Drive
Hillsboro, Ohio 45133

We have reviewed the *Independent Auditor's Report* of the Southern State Community College, Highland County, prepared by Millhuff-Stang, CPA, Inc., for the audit period July 1, 2010 through June 30, 2011. 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 Southern State Community College is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

November 15, 2011

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Southern State Community College
Highland County
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For the Fiscal Years Ended June 30, 2011 and 2010

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Independent Auditor's Report

Board of Trustees
Southern State Community College
100 Hobart Drive
Hillsboro, Ohio 45133

We have audited the accompanying financial statements of the business-type activities of Southern State Community College, Highland County (the College), a component unit of the State of Ohio, and its discretely presented component unit, as of and for the years ended June 30, 2011 and 2010, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Southern State Community College, Highland County, as of June 30, 2011 and 2010, and the respective changes in financial position and cash flows thereof for the years 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 our report dated October 12, 2011 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis 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.

Southern State Community College
Highland County
Independent Auditor's Report
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The accompanying schedule of federal awards expenditures 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 is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Natalie Millhuff-Stang, CPA
President/Owner
Millhuff-Stang, CPA, Inc.

October 12, 2011

Southern State Community College
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2011 and 2010
(Unaudited)

Accounting Standards

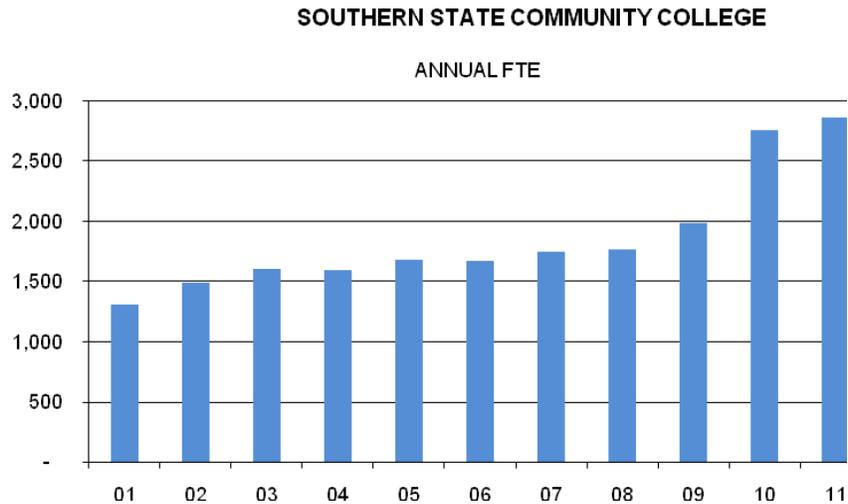
In June 1999, the Governmental Accounting Standards Board (GASB) released Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," which established a new reporting format for annual financial statements. In November 1999 GASB released Statement No. 35, "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities," which applies the new reporting standards to public colleges and universities. Southern State Community College was required to adopt these new standards for this fiscal year ending June 30, 2002, and has done so.

The following discussion and analysis provides an overview of the College's financial activities. This is the tenth year using the new format.

As required by the newly adopted accounting principles, the annual report consists of three basic financial statements that provide information on the College: the statement of net assets; the statement of revenues, expenses and changes in net assets; and the statement of cash flows. Each one of these statements will be discussed.

Financial and Enrollment Highlights

- In FY 11 the College experienced a modest enrollment increase of 3.9 %.
- The modest enrollment increase along with a 3.5% tuition increase in FY 11, combined with implementation of the FY 10 tuition increase of 3.5%, resulted in an increase in gross student fee revenue of 12.4%.



- State Subsidy increased by 11.9%.
- Health care premiums increased 13.5% in FY 11 and will increase 4.7% in FY 12.

Southern State Community College
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2011 and 2010
(Unaudited)

Statement of Net Assets

The statement of net assets includes assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. Net assets – the difference between assets and liabilities – are one way of measuring the financial health of the College.

| | <u>FY 11</u> | <u>FY 10</u> | <u>FY 09</u> |
|---|---------------------|---------------------|---------------------|
| Assets | | | |
| Current assets | \$11,931,714 | \$10,038,606 | \$8,964,012 |
| Noncurrent assets | 2,198,218 | 1,977,382 | 1,811,533 |
| Capital assets, net | <u>20,020,827</u> | <u>20,294,604</u> | <u>20,346,787</u> |
| Total assets | 34,150,759 | 32,310,592 | 31,122,332 |
| Liabilities | | | |
| Current liabilities | 2,134,930 | 2,010,420 | 2,162,370 |
| Noncurrent liabilities | <u>5,515,266</u> | <u>5,656,725</u> | <u>5,769,512</u> |
| Total liabilities | 7,650,196 | 7,667,145 | 7,931,882 |
| Net assets | | | |
| Invested in capital assets, net of related debt | 15,230,729 | 15,194,634 | 15,433,138 |
| Restricted | 4,307,583 | 4,161,462 | 3,661,609 |
| Unrestricted | <u>6,962,251</u> | <u>5,287,351</u> | <u>4,095,703</u> |
| Total net assets | <u>\$26,500,563</u> | <u>\$24,643,447</u> | <u>\$23,190,450</u> |

Receivables include student accounts for tuition, daycare charges, company accounts for training, and grant receivables. The increase is the result of enrollment growth.

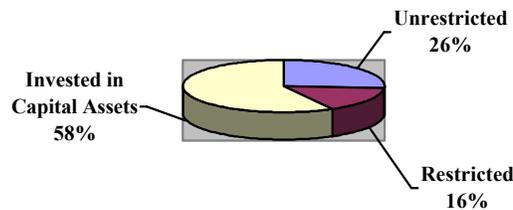
Current liabilities increased by 6.2%. Vendor accounts are paid within 30 days.

Deferred revenue is largely represented by tuition and fees generated from registrations for the next fiscal year, FY 12. These dollars will be recognized in the following year's financial statements.

Long-term liabilities include deferred compensation (accrued vacation and sick days) and the net present value of the future capital lease and the bond issue payments.

Net assets include the net investment in capital assets and both restricted and unrestricted funds. Total net assets increased 7.5% from FY 10 to FY 11.

Net Assets as of June 30, 2011



Southern State Community College
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2011 and 2010
(Unaudited)

Statement of Revenues, Expenses and Changes in Net Assets

The statement of revenues, expenses and changes in net assets presents the operating results of the College operations, as well as the non-operating revenues and expenses. Annual state appropriations, while budgeted for, are considered non-operating revenues according to generally accepted accounting principles.

| | FY 11 | FY 10 | FY 09 |
|--|---------------------|---------------------|---------------------|
| Operating revenue: | | | |
| Net tuition and fees | \$9,663,998 | \$8,721,673 | \$7,098,251 |
| Auxiliary | 4,651,383 | 5,230,666 | 4,426,911 |
| Grants and contracts | 857,488 | 2,526,000 | 5,514,026 |
| Other | 113,064 | 342,146 | 254,469 |
| Total | <u>15,285,933</u> | <u>16,820,485</u> | <u>17,293,657</u> |
| Operating expenses | | | |
| Instructional | 8,815,132 | 8,495,395 | 7,272,948 |
| Research | 9 | 7 | 6 |
| Community service | 980,957 | 2,535,686 | 2,923,208 |
| Academic support | 2,496,015 | 2,129,446 | 2,100,162 |
| Student services | 2,072,761 | 1,723,704 | 2,109,055 |
| Institutional support | 2,667,789 | 2,212,243 | 2,092,861 |
| Plant operations | 1,922,876 | 2,021,035 | 2,076,546 |
| Depreciation | 866,433 | 844,536 | 816,804 |
| Scholarships | 9,068,122 | 7,791,437 | 5,209,255 |
| Auxiliary | 4,134,378 | 4,508,616 | 3,651,065 |
| Total | <u>33,024,472</u> | <u>32,262,105</u> | <u>28,251,910</u> |
| Operating loss | (17,738,539) | (15,441,620) | (10,958,253) |
| Nonoperating revenues: | | | |
| Federal grants | 12,019,395 | 10,092,634 | 4,271,943 |
| State subsidy | 6,992,446 | 6,247,904 | 7,126,762 |
| Investment income | 267,203 | 191,314 | 46,716 |
| Interest on capital asset-related debt | (224,348) | (231,799) | (235,197) |
| Capital appropriations | 151,140 | 221,216 | 1,509,600 |
| Addition to endowments | 4,978 | 62,294 | 45,826 |
| Return of endowments | (77,084) | 0 | 0 |
| Other nonoperating revenue | 461,925 | 311,054 | 0 |
| Total | <u>19,595,655</u> | <u>16,894,617</u> | <u>12,765,650</u> |
| Increase in net assets | 1,857,116 | 1,452,997 | 1,807,397 |
| Net assets - beginning of year | 24,643,447 | 23,190,450 | 21,383,053 |
| Net assets - end of year | <u>\$26,500,563</u> | <u>\$24,643,447</u> | <u>\$23,190,450</u> |

Net tuition and fees represents gross student fee revenue of \$11,881,271 in FY 11 and \$10,566,642 in FY 10 net of scholarship allowances of \$2,217,273 and \$1,844,969 for those years respectively. Auxiliary revenue consists of bookstore, daycare, and non-grant portion of corporate and community services. This decrease was due to significantly reduced volume in noncredit job training and a result of reduced State grant activity.

Southern State Community College
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2011 and 2010
(Unaudited)

Operating expense increases primarily reflect increases in salaries and benefits.

State subsidy as a percent of total revenue has declined from past years, however in both FY 11 & FY 10, it remained at just under 40% of nonoperating revenues.

Statement of Cash Flows

The statement of cash flows provides information about cash receipts and cash payments during the year. This statement also helps users assess the College's ability to generate net cash flows, its ability to meet obligations as they come due, and its need for external funding.

| | FY 11 | FY 10 | FY 09 |
|--|----------------|----------------|----------------|
| Cash provided by (used In): | | | |
| Operating activities | (\$16,791,715) | (\$14,725,436) | (\$10,328,681) |
| Non-capital financing activities | 19,401,660 | 16,713,886 | 11,444,531 |
| Capital and related financing activities | (975,100) | (1,071,409) | (3,574,005) |
| Investing activities | 46,367 | 25,465 | 578,250 |
| Net increase (decrease) in cash | 1,681,212 | 942,506 | (1,879,905) |
| Cash - beginning of year | 7,402,631 | 6,460,125 | 8,340,030 |
| Cash - end of year | \$9,083,843 | \$7,402,631 | \$6,460,125 |

The primary cash receipts from operating activities are student fees. State subsidies and federal grants represent the primary non-operating sources of funds. Payments to employees are the primary use of funds.

Capital Assets

Capital assets, net of accumulated depreciation totaled \$20,020,827 at June 30, 2011, a net decrease of \$273,777 from the prior year-end. Additions to capital assets during the year totaled \$592,656 and there were no disposals. Depreciation expense for the year ended June 30, 2011 totaled \$866,433.

Debt

As of June 30, 2011, the College had outstanding debt of \$ 4,771,667 of which \$270,788 was short-term (or due within one-years) and \$4,500,879 was long-term debt (would come due beyond after one year). Of the outstanding debt, \$101,667 related to capital leases, and \$4,670,000 related to two 20 year bond issues that were used to provide a portion of the funding of the Patriot Center located on the Central Campus, and a portion of the funding for a renovation and expansion project on the Fayette Campus. The Patriot Center was completed in March of 2005 and the debt service is fully funded by a \$3 per credit hour activity fee. The Fayette Expansion Project has been completed and opened fall term 2009. The related debt service should be fully funded by state capital funds.

Economic Factors that will effect the Future

Challenges

- In fall term 2011 the College continues to have the lowest tuition rate in the state among non-levy state colleges. Maintaining the appropriate balance between affordability and quality is a continuing challenge.
- Keeping pace with the constantly changing demand for new and enhanced programs to prepare our students for the workplace will continue to require a focused effort.

Opportunities

- The retaining of a substantial portion of the significant recent enrollment growth which spiked in FY 10, coupled with new construction planning in areas which offer additional growth opportunities.
- Increased experience and participation in early college partnerships with local schools.
- The College entered into a purchase agreement for some property for a campus addition.

Southern State Community College
Highland County
Statements of Net Assets
As of June 30, 2011 and June 30, 2010

| | 2011 | | 2010 | |
|---|--------------|-------------|--------------|-------------|
| | College | Foundation | College | Foundation |
| Assets: | | | | |
| Current assets: | | | | |
| Cash | \$5,088,123 | \$1,038 | \$5,855,485 | \$33,988 |
| Cash equivalents | 3,783,618 | 211,064 | 1,243,154 | 270,004 |
| Accounts receivable, net | 2,412,156 | 0 | 2,221,186 | 0 |
| Pledges receivable, net | 0 | 30,768 | 0 | 32,168 |
| Inventories | 307,192 | 0 | 309,434 | 0 |
| Other assets | 95,900 | 1,855 | 71,332 | 1,855 |
| Total current assets | 11,686,989 | 244,725 | 9,700,591 | 338,015 |
| Noncurrent assets: | | | | |
| Restricted investments | 448,572 | 1,749,646 | 448,572 | 1,528,810 |
| Capital assets, net | 20,020,827 | 0 | 20,294,604 | 0 |
| Total noncurrent assets | 20,469,399 | 1,749,646 | 20,743,176 | 1,528,810 |
| Total assets | 32,156,388 | 1,994,371 | 30,443,767 | 1,866,825 |
| Liabilities: | | | | |
| Current liabilities: | | | | |
| Accounts payable | 410,392 | 0 | 233,796 | 0 |
| Accrued liabilities | 569,708 | 0 | 538,818 | 0 |
| Held in custody for others | 113,972 | 0 | 101,362 | 0 |
| Bonds payable, current portion | 220,000 | 0 | 215,000 | 0 |
| Capital lease obligation, current portion | 50,788 | 0 | 116,438 | 0 |
| Deferred revenue | 770,070 | 0 | 805,006 | 0 |
| Total current liabilities | 2,134,930 | 0 | 2,010,420 | 0 |
| Noncurrent liabilities: | | | | |
| Bonds payable, long-term portion | 4,450,000 | 0 | 4,670,000 | 0 |
| Capital lease obligation, long-term portion | 50,879 | 0 | 79,465 | 0 |
| Compensated absences | 1,014,387 | 0 | 907,260 | 0 |
| Total noncurrent liabilities | 5,515,266 | 0 | 5,656,725 | 0 |
| Total liabilities | 7,650,196 | 0 | 7,667,145 | 0 |
| Net assets: | | | | |
| Invested in capital assets, net of related debt | 15,230,729 | 0 | 15,194,634 | 0 |
| Restricted for: | | | | |
| Nonexpendable: | | | | |
| Endowments | 12,318 | 1,917,057 | 12,318 | 1,805,446 |
| Expendable: | | | | |
| Loans | 17,696 | 0 | 17,696 | 0 |
| Scholarships and fellowships | 0 | 62,913 | 0 | 61,356 |
| Other | 2,297,599 | 0 | 2,264,646 | 0 |
| Unrestricted | 6,947,850 | 14,401 | 5,287,328 | 23 |
| Total net assets | \$24,506,192 | \$1,994,371 | \$22,776,622 | \$1,866,825 |

The notes to the basic financial statements are an integral part of this statement.

**Southern State Community College
Highland County**

*Statements of Revenues, Expenses and Changes in Net Assets
For the Fiscal Years Ended June 30, 2011 and June 30, 2010*

| | 2011 | | 2010 | |
|--|--------------|-------------|--------------|-------------|
| | College | Foundation | College | Foundation |
| Revenues: | | | | |
| Operating revenues: | | | | |
| Student tuition and fees (net of scholarship allowance) | \$9,663,998 | \$0 | \$8,721,673 | \$0 |
| Federal grants and contracts | 0 | 0 | 29,015 | 0 |
| State grants and contracts | 171,808 | 0 | 986,300 | 0 |
| Local grants and contracts | 471,319 | 0 | 570,702 | 0 |
| Private grants and contracts | 186,179 | 28,182 | 915,541 | 24,442 |
| Auxiliary services | 4,651,383 | 0 | 5,230,666 | 0 |
| Other operating revenue | 113,064 | 0 | 342,146 | 0 |
| | | | | |
| Total operating revenue | 15,257,751 | 28,182 | 16,796,043 | 24,442 |
| Expenses: | | | | |
| Operating expenses: | | | | |
| Instructional | 8,815,132 | 0 | 8,495,395 | 0 |
| Research | 9 | 0 | 7 | 0 |
| Community service | 980,957 | 0 | 2,535,686 | 0 |
| Academic support | 2,496,015 | 0 | 2,129,446 | 0 |
| Student services | 2,001,346 | 71,415 | 1,659,379 | 64,325 |
| Institutional support | 2,667,789 | 0 | 2,212,243 | 0 |
| Plant operations | 1,922,876 | 0 | 2,021,035 | 0 |
| Depreciation | 866,433 | 0 | 844,536 | 0 |
| Scholarships | 9,068,122 | 0 | 7,791,437 | 0 |
| Auxiliary activities | 4,134,378 | 0 | 4,508,616 | 0 |
| | | | | |
| Total operating expenses | 32,953,057 | 71,415 | 32,197,780 | 64,325 |
| Operating loss | (17,695,306) | (43,233) | (15,401,737) | (39,883) |
| Nonoperating revenues (expenses) | | | | |
| Federal grants and contracts | 12,019,395 | 0 | 10,092,634 | 0 |
| State appropriations | 6,992,446 | 0 | 6,247,904 | 0 |
| Investment income (net of investment expense) | 24,318 | 242,885 | 30,552 | 160,762 |
| Interest on capital asset-related debt | (224,348) | 0 | (231,799) | 0 |
| Other nonoperating revenues (expenses) | 461,925 | 0 | 311,054 | 0 |
| | | | | |
| Total nonoperating revenues (expenses) | 19,273,736 | 242,885 | 16,450,345 | 160,762 |
| Income (loss) before other revenues, expenses, gains, losses | 1,578,430 | 199,652 | 1,048,608 | 120,879 |
| Capital appropriations | 151,140 | 0 | 221,216 | 0 |
| Additions to permanent endowments | 0 | 4,978 | 0 | 62,294 |
| Return of permanent endowments | 0 | (77,084) | 0 | 0 |
| | | | | |
| Increase in net assets | 1,729,570 | 127,546 | 1,269,824 | 183,173 |
| Net assets - beginning of year | 22,776,622 | 1,866,825 | 21,506,798 | 1,683,652 |
| Net assets - end of year | \$24,506,192 | \$1,994,371 | \$22,776,622 | \$1,866,825 |

The notes to the basic financial statements are an integral part of this statement.

Southern State Community College
Highland County
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2011 and June 30, 2010

| | 2011 | | 2010 | |
|--|----------------|------------|----------------|------------|
| | College | Foundation | College | Foundation |
| Cash flows from operating activities: | | | | |
| Tuition and fees | \$9,366,961 | \$0 | \$8,643,888 | \$0 |
| Grants and contracts | 857,633 | 0 | 2,323,650 | 0 |
| Private gifts | 0 | 29,582 | 0 | 26,142 |
| Payments to suppliers | (7,056,001) | 0 | (7,728,406) | 0 |
| Payments for utilities | (809,274) | 0 | (655,828) | 0 |
| Payments to employees | (10,997,853) | 0 | (11,444,309) | 0 |
| Payments for benefits | (3,855,923) | 0 | (3,630,265) | 0 |
| Scholarships | (9,068,122) | (71,415) | (7,791,454) | (64,325) |
| Auxiliary enterprise charges: | | | | |
| Bookstores | 4,687,023 | 0 | 5,234,113 | 0 |
| Other receipts | 125,674 | 0 | 361,358 | 0 |
| Net cash used by operating activities | (16,749,882) | (41,833) | (14,687,253) | (38,183) |
| Cash flows from noncapital financing activities: | | | | |
| Federal grants and contracts | 12,019,395 | 0 | 10,092,634 | 0 |
| State appropriations | 6,992,446 | 0 | 6,247,904 | 0 |
| Gifts and grants received for other than capital purposes | 461,925 | 4,978 | 311,054 | 62,294 |
| Return of permanent endowments | 0 | (77,084) | 0 | 0 |
| Net cash provided (used) by noncapital financing activities | 19,473,766 | (72,106) | 16,651,592 | 62,294 |
| Cash flows from capital and related financing activities: | | | | |
| Capital appropriations | 151,140 | 0 | 221,216 | 0 |
| Purchase of capital assets | (592,656) | 0 | (770,035) | 0 |
| Principal paid on capital debt and lease | (309,236) | 0 | (290,791) | 0 |
| Interest paid on capital debt and lease | (224,348) | 0 | (231,799) | 0 |
| Net cash used by capital and related financing activities | (975,100) | 0 | (1,071,409) | 0 |
| Cash flows from investing activities: | | | | |
| Interest on investments | 24,318 | 242,885 | 30,552 | 160,762 |
| Purchase of investments | 0 | (220,836) | 0 | (165,849) |
| Net cash provided by investing activities | 24,318 | 22,049 | 30,552 | (5,087) |
| Net increase (decrease) in cash | 1,773,102 | (91,890) | 923,482 | 19,024 |
| Cash - beginning of year | 7,098,639 | 303,992 | 6,175,157 | 284,968 |
| Cash - end of year | \$8,871,741 | \$212,102 | \$7,098,639 | \$303,992 |
| Reconciliation of net operating revenues (expenses) to net cash used by operating activities: | | | | |
| Operating loss | (\$17,695,306) | (\$43,233) | (\$15,401,737) | (\$39,883) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | | | |
| Depreciation expense | 866,433 | 0 | 844,536 | 0 |
| Changes in assets and liabilities: | | | | |
| Receivables, net | (190,970) | 1,400 | (21,013) | 1,700 |
| Inventories | 2,242 | 0 | (123,055) | 0 |
| Other assets | (24,568) | 0 | 10,280 | 0 |
| Accounts payable | 176,596 | 0 | (108,920) | 0 |
| Accrued liabilities | 30,890 | 0 | 74,667 | 0 |
| Deferred revenue | (34,936) | 0 | (231,250) | 0 |
| Deposits held for others | 12,610 | 0 | 19,212 | 0 |
| Compensated absences | 107,127 | 0 | 250,027 | 0 |
| Net cash used by operating activities | (\$16,749,882) | (\$41,833) | (\$14,687,253) | (\$38,183) |

The notes to the basic financial statements are an integral part of this statement.

Southern State Community College
Highland County
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

Southern State Community College (the College) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio and is considered to be a component unit of the primary reporting unit of the State of Ohio. The financial statements present the financial position and results of operations of the College along with the Southern State Community College Foundation (the Foundation), as a component unit of the College.

The College was chartered on February 21, 1975 as the Southern State General and Technical College. On October 21, 1977, the name of the College was officially changed to Southern State Community College.

The College operates under the direction of a nine member Board of Trustees who are appointed by the Governor with the advice and consent of the Ohio Senate. A President is appointed by the Board of Trustees to oversee day-to-day operations of the College. An appointed treasurer is the custodian of funds and is responsible for the fiscal control of the resources of the College.

The College was organized principally to offer educational programs beyond high school, normally not exceeding two years in duration, and leading to the award of an associate degree. The College offers programs in the liberal arts and sciences, technical training, and adult and continuing education, as outlined in ORC Section 3358.01.

Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis of Public Colleges and Universities*, issued in June and November 1999, respectively. The College reports as a special purpose government engaged solely in "business-type activities" under GASB Statement No. 34.

Basis of Accounting

The financial statements of the College have been prepared 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 obligations have been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by providers have been met. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

Cash and Cash Equivalents

The College's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents include the College's investment in the Star Ohio fund and money market funds, which amounted to \$3,994,682 and \$1,513,158 at June 30, 2011 and 2010, respectively.

Investments

The College does not have a formal investment policy but consults the Ohio Revised Code for guidance with respect to allowable investments. The Foundation does have a formal policy, and the purchase of specific investment instruments is at the discretion of the Treasurer within these policy guidelines. As of June 30, 2011 and 2010, investments held by the College and Foundation were valued at \$2,198,218 and \$1,977,382, respectively. In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments are reported at fair value.

Southern State Community College
Highland County
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 1 - Summary of Significant Accounting Policies (Continued)

Accounts and Pledges Receivables

At June 30, 2011 and 2010, accounts receivable consist primarily of student tuition and fees, third party, and intergovernmental grants and contracts. Student accounts receivable are reported net of an allowance for doubtful accounts of \$1,516,172 and \$1,280,511 at June 30, 2011 and 2010, respectively, whereas other receivables are reported at net, based on separate allowances for doubtful accounts estimated by management.

Pledges receivable are unconditional promises to give and are recognized at the present value of future cash flows. No allowance for uncollectible promises to give is considered necessary.

Inventory

Inventories consist principally of books and supplies of the bookstore and central stores inventory. Inventories, which are stated at the lower of cost or market, are determined on the first-in-first-out (FIFO) basis.

Restricted Assets

Restricted assets represent assets whose use is restricted by external parties or by law through constitutional or enabling legislation.

Capital Assets

Capital assets with a unit cost of over \$5,000, and all library books, are recorded at cost at the date of acquisition, or, if donated, at fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expenditure categories. Expenditures for construction in progress are capitalized as incurred. Interest expense related to construction is capitalized net of interest income earned on resources set aside for this purpose. Routine maintenance and repairs are charged to expenses as incurred. Certain assets purchased through capital leases have been capitalized and included as part of equipment in the accompanying financial statements.

Deferred Revenue

Deferred revenue is comprised primarily of receipts relating to tuition and student fees in advance of the services to be provided and grant funds not earned as of June 30, 2011 and 2010.

Operating Revenues

All revenues from programmatic sources are considered to be operating revenues. Included in non-operating revenues are certain federal grants and contracts, state appropriations, investment income, and gifts. Gifts (pledges) that are received on an installment basis are recorded at net present value.

Scholarships and Allowances and Student Aid

Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid such as loans, funds provided to students as awarded by third parties, and Federal Direct Lending is accounted for as a third party payment (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses, or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition.

Pensions

A pension cost provision is recorded when the related payroll is accrued and the obligation is incurred.

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management estimates, primarily related to collectibility of receivables and compensated absences. Actual results could differ from those estimates.

**Southern State Community College
Highland County**
*Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010*

Note 1 - Summary of Significant Accounting Policies (Continued)

Federal Financial Assistance Programs

The College participates in federally funded Pell Grants, SEOG Grants, and Federal Direct Lending programs. Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the U.S. Office of Management and Budget Revised Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and the Compliance Supplement. During fiscal years 2011 and 2010, the College distributed \$8,158,837 and \$7,501,423, respectively, for direct lending through the U.S. Department of Education, which is not included as revenues and expenditures on the accompanying financial statements.

Net Assets

GASB Statement No. 34 reports equity as “net assets” rather than “fund balance.” Net assets are classified according to external donor restrictions or availability of assets for satisfaction of College obligations. Invested in capital assets, net of accumulated depreciation, reduced by related debt represents the College’s total investment in capital assets, net of outstanding debt obligations related to those capital assets. Nonexpendable restricted net assets are gifts that have been received for endowment purposes, the corpus of which cannot be expended. Expendable restricted net assets represent funds that have been gifted for specific purposes. Unrestricted net assets include resources which can be used at the College’s discretion.

Of the College’s \$4,307,583 and \$4,161,462 in restricted net assets at June 30, 2011 and 2010, respectively, none is restricted by enabling legislation.

Note 2 - Cash, Cash Equivalents and Investments

Statement No. 3 of the Government Accounting Standards Board requires governmental entities to categorize deposits and investments to give an indication of the level of risk assumed by the entity at year-end. These categories of risk follow:

| | Cash | Investments |
|--------------------|--|--|
| Category 1 | Deposits that are either insured or collateralized with securities held by the College or by its agent in the College’s name. | Investments that are insured or registered, or securities held by the College or by its agent in the College’s name. |
| Category 2 | Deposits collateralized with securities held by the pledging financial institution’s trust department or agent in the College’s name. | Investments that are uninsured and registered, with securities held by the counterparty’s trust department or agent in the College’s name. |
| Category 3 | Deposits that are uncollateralized (including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the College’s name). | Investments that are uninsured and unregistered, with securities held by the counterparty’s trust department or agent but not held in the College’s name. |
| Not Categorized | | Investments in mutual funds, money markets and investment management funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. |

Southern State Community College
Highland County
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 2 - Cash, Cash Equivalents and Investments (Continued)

Primary Government - College

At June 30, 2011, the carrying amount of the College's cash deposits was \$5,088,123 and the bank balance was \$5,654,917. At June 30, 2011, \$255,221 of the bank balance was insured by the FDIC (Category 1); the remaining bank balances were Category 3.

The College and Foundation held \$3,783,618 and \$116,960 in Star Ohio investments, respectively which is an external investment pool and is considered a cash equivalent under GASB Statement No. 9. Oversight of the pool is through the Treasurer of State. The fair values of the College's and Foundation's positions in the pool are the same as the value of their pool shares. Such investments are not required to be categorized in accordance with Governmental Accounting Standards Board Statement No. 3. All other investments are Category 1. The following summarizes the market value of the College's investments:

| Description | Value | Less than One Year |
|-------------------------|-------------|-----------------------|
| June 30, 2011 | | |
| Star Ohio | \$3,900,578 | \$3,900,578 |
| US Treasury Obligations | 448,572 | 448,572 |
| Total Investments | \$4,349,150 | \$4,349,150 |

At June 30, 2010, the carrying amount of the College's cash deposits was \$5,855,485 and the bank balance was \$6,560,606. The differences represent normal reconciling items associated with timing differences and cash on hand. At June 30, 2010, \$251,898 of the bank balance was insured by the FDIC (Category 1); the remaining bank balances were Category 3.

The College and Foundation held \$1,243,154 and \$202,545 in Star Ohio investments, respectively which is an external investment pool and is considered a cash equivalent under GASB Statement No. 9. Oversight of the pool is through the Treasurer of State. The fair values of the College's and Foundation's positions in the pool are the same as the value of their pool shares. Such investments are not required to be categorized in accordance with Governmental Accounting Standards Board Statement No. 3. All other investments are Category 1. The following summarizes the market value of the College's investments:

| Description | Value | Less than One Year |
|-------------------------|-------------|-----------------------|
| June 30, 2010 | | |
| Star Ohio | \$1,445,699 | \$1,445,699 |
| US Treasury Obligations | 448,572 | 448,572 |
| Total Investments | \$1,894,271 | \$1,894,271 |

Component Unit – Foundation

At June 30, 2011, the carrying amount of the Foundation's cash deposits was \$1,038 and the bank balance was \$1,038. At June 30, 2011, the entire bank balance was insured by the FDIC (Category 1).

Southern State Community College
Highland County
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 2 - Cash, Cash Equivalents and Investments (Continued)

| Description | Market Value | Investment Maturities (in years) | | |
|------------------------|--------------------|----------------------------------|------------------|-----------------|
| | | Less than 1 | 1-5 | 6-10 |
| June 30, 2011: | | | | |
| Star Ohio | \$116,960 | \$116,960 | \$0 | \$0 |
| Money market funds | 94,103 | 94,103 | 0 | 0 |
| Alternative Strategies | 49,463 | 49,463 | 0 | 0 |
| Other Bonds | 661,957 | 328,622 | 246,590 | 86,745 |
| Pimco Bond Funds | 37,460 | 37,460 | 0 | 0 |
| Common Stock | 201,794 | 201,794 | 0 | 0 |
| Equity Funds | 798,973 | 798,973 | 0 | 0 |
| Total Investments | <u>\$1,960,710</u> | <u>\$1,627,375</u> | <u>\$246,590</u> | <u>\$86,745</u> |

| Description | Market Value | Investment Maturities (in years) | | |
|------------------------|--------------------|----------------------------------|------------------|------------------|
| | | Less than 1 | 1-5 | 6-10 |
| June 30, 2010: | | | | |
| Star Ohio | \$202,545 | \$202,545 | \$0 | \$0 |
| Money market funds | 67,459 | 67,459 | 0 | 0 |
| Alternative Strategies | 24,336 | 24,336 | 0 | 0 |
| Other Bonds | 647,277 | 313,601 | 162,072 | 171,604 |
| Pimco Bond Funds | 61,811 | 61,811 | 0 | 0 |
| Common Stock | 179,989 | 179,989 | 0 | 0 |
| Equity Funds | 615,397 | 615,397 | 0 | 0 |
| Total Investments | <u>\$1,798,814</u> | <u>\$1,465,138</u> | <u>\$162,072</u> | <u>\$171,604</u> |

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Primary Government - The College does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Component Unit - As a means of limiting its exposure to fair value losses arising from rising interest rates, the Foundation's investment policy provides for management of the portfolio to minimize principal fluctuations with a long-term investment mix and with an initial target allocation of 40 percent of its assets to be invested in fixed income investments. Cash equivalents should represent maturities of one year or less at the time of purchase. Also, no bond issues may be purchased with more than 10 years to maturity.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Primary Government - The College has no investment policy that limits its investment choices. As of the fiscal years ended June 30, 2011 and 2010, the College's investments in Star Ohio, money market funds, and US Treasury Obligations were rated AAAM by Standard & Poor's.

Southern State Community College
Highland County
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 2 - Cash, Cash Equivalents and Investments (Continued)

Component Unit - The Foundation's investment policy limits investments to the following categories: Cash Equivalents, Fixed Income Assets, Equities Assets, and Mutual Funds. Fixed income assets are subject to several limitations including only corporate debt issues that meet or exceed a credit rating of "A" from S&P or "A2" or higher from Moody's. Preferred stocks should be rated "A" or better by Moody's or S&P at the time of purchase. Equities holdings should represent companies meeting a minimum capitalization requirement of two hundred and fifty million with high market liquidity. Standard & Poor's rated Star Ohio AAAm, Federated US Govt Securities AAAf/S2, and Pimco bonds AAA. The money market funds were unrated.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

Primary Government - The College places no limit on the amount the College may invest in any one issuer. More than 5% of the College's investments are in Star Ohio or US Treasury Obligations. These investments were 90% and 10%, respectively, of the College's total investments as of June 30, 2011 and 76% and 24% as of June 30, 2010.

Component Unit - The Foundation's investment policy calls for initial targets of asset categories along with acceptable ranges in order to balance the risks as follows:

| <u>Asset Category</u> | <u>Initial Target Allocation</u> | <u>Acceptable Range</u> |
|-----------------------|----------------------------------|-------------------------|
| Cash | 10% | 1-10% |
| Fixed Income | 40% | 30-70% |
| Stocks | 50% | 30-70% |

For the fiscal year ended June 30, 2011, more than 5 percent of the Foundation's investments are in Star Ohio, common stock, equity funds, and other bonds. These investments represent 6%, 10%, 41%, and 34% of the Foundation's total investments, respectively. For the fiscal year ended June 30, 2010, more than 5 percent of the Foundation's investments are in Star Ohio, common stock, equity funds, and other bonds. These investments represent 11%, 10%, 34%, and 36% of the Foundation's total investments, respectively.

Custodial credit risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. For deposits, custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it.

Primary Government - Deposits. The College does not have a policy for custodial credit risk. As of June 30, 2011, \$255,221 was insured by FDIC. The remaining balance of \$5,399,696 was collateralized with securities held by the pledging institution but not in the College's name.

Component Unit - The Foundation's endowment investment policy provides that the investments will be made for the sole interest and exclusive purpose of providing benefits to the investment committee. All investments are held in the name of the Foundation.

**Southern State Community College
Highland County**
*Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010*

Note 3 – Accounts Receivable

Accounts receivable at June 30, 2011 was comprised of the following:

| | Gross Receivables | Allowance For Doubtful Accounts | Net Receivables |
|---------------------------|----------------------|---------------------------------------|--------------------|
| Current Receivables: | | | |
| Students | \$2,058,106 | (\$1,516,172) | \$541,934 |
| Intergovernmental | 133,652 | 0 | 133,652 |
| Third Party | 1,733,331 | 0 | 1,733,331 |
| Other | 85,300 | (82,061) | 3,239 |
| Total Current Receivables | <u>\$4,010,389</u> | <u>(\$1,598,233)</u> | <u>\$2,412,156</u> |

Note 4 - Capital Assets

Capital asset activity for the years ended June 30, 2011 and 2010 were as follows:

| <u>June 30, 2011</u> | Beginning | Additions | Deductions | Ending |
|---|---------------------|--------------------|------------|---------------------|
| Land | \$767,441 | \$0 | \$0 | \$767,441 |
| Non-depreciable artwork | 51,900 | 0 | 0 | 51,900 |
| Total cost of nondepreciable capital assets | 819,341 | 0 | 0 | 819,341 |
| Building and Improvements | 28,854,368 | 339,314 | 0 | 29,193,682 |
| Equipment | 1,962,801 | 120,752 | 0 | 2,083,553 |
| Library books | 481,421 | 17,524 | 0 | 498,945 |
| Vehicles | 237,505 | 115,066 | 0 | 352,571 |
| Total cost of depreciable capital assets | <u>31,536,095</u> | <u>592,656</u> | <u>0</u> | <u>32,128,751</u> |
| Total cost of capital assets | 32,355,436 | 592,656 | 0 | 32,948,092 |
| Less accumulated depreciation | | | | |
| Buildings and Improvements | (9,698,241) | (763,650) | 0 | (10,461,891) |
| Equipment | (1,709,433) | (72,195) | 0 | (1,781,628) |
| Library books | (427,304) | (13,764) | 0 | (441,068) |
| Vehicles | (225,854) | (16,825) | 0 | (242,679) |
| Total accumulated depreciation | <u>(12,060,832)</u> | <u>(866,433)</u> | <u>0</u> | <u>(12,927,265)</u> |
| Net capital assets | <u>\$20,294,604</u> | <u>(\$273,777)</u> | <u>\$0</u> | <u>\$20,020,827</u> |

**Southern State Community College
Highland County**
*Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010*

Note 4 - Capital Assets (Continued)

| June 30, 2010 | Beginning | Additions | Deductions | Ending |
|---|--------------|-------------|-------------|--------------|
| Land | \$767,441 | \$0 | \$0 | \$767,441 |
| Construction in Progress | 4,477,391 | 0 | 4,477,391 | 0 |
| Non-depreciable artwork | 51,900 | 0 | 0 | 51,900 |
| Total cost of nondepreciable capital assets | 5,296,732 | 0 | 4,477,391 | 819,341 |
| | | | | |
| Building and Improvements | 23,787,206 | 5,067,162 | 0 | 28,854,368 |
| Equipment | 1,777,805 | 184,996 | 0 | 1,962,801 |
| Library books | 463,835 | 17,586 | 0 | 481,421 |
| Vehicles | 237,505 | 0 | 0 | 237,505 |
| Total cost of depreciable capital assets | 26,266,351 | 5,269,744 | 0 | 31,536,095 |
| Total cost of capital assets | 31,563,083 | 5,269,744 | 4,477,391 | 32,355,436 |
| | | | | |
| Less accumulated depreciation | | | | |
| Buildings and Improvements | (9,008,118) | (690,123) | 0 | (9,698,241) |
| Equipment | (1,581,845) | (127,588) | 0 | (1,709,433) |
| Library books | (413,447) | (13,857) | 0 | (427,304) |
| Vehicles | (212,886) | (12,968) | 0 | (225,854) |
| Total accumulated depreciation | (11,216,296) | (844,536) | 0 | (12,060,832) |
| Net capital assets | \$20,346,787 | \$4,425,208 | \$4,477,391 | \$20,294,604 |

The following estimated useful lives are used to compute depreciation:

| | |
|----------------------------|---------------|
| Buildings and Improvements | 20 - 40 years |
| Library Books | 7 years |
| Equipment and Vehicles | 5 - 15 years |

Note 5 - State Support

The College is a state-assisted institution of higher education and receives a student-based subsidy from the State of Ohio, as determined annually based upon a formula devised by the Ohio Board of Regents.

In addition to the student subsidies, the State of Ohio provides the funding for the construction of major plant facilities on the College's campus. The funding is obtained from the issuance of revenue bonds by the Ohio Public Facilities Commission (OPFC), which in turn causes the construction and subsequent lease of the facility by the Ohio Board of Regents. Upon completion of a facility, the Board of Regents turns over control to the College, which capitalizes the cost thereof. Neither the obligation for the revenue bonds issued by the Ohio Public Facilities Commission nor the annual debt service charges for principal and interest on the bonds are reflected in the College's financial statements. These are currently being funded through appropriations to the Board of Regents by the General Assembly.

Southern State Community College
Highland County
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 5 - State Support (Continued)

The 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 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 the Ohio Public Facilities Commission is not included on the College's statement of net assets.

Note 6 - Capital Leases

The College is obligated under certain leases accounted for as capital leases. The leased assets have a carrying value of approximately \$357,670. The related lease obligations are accounted for in the plant fund. The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of June 30, 2011:

| <u>Years Ended June 30,</u> | <u>Amount</u> |
|---|------------------|
| 2012 | \$79,114 |
| 2013 | 23,875 |
| 2014 | 12,238 |
| 2015 | <u>5,753</u> |
| Total minimum lease payments | 120,980 |
| Less: Amount representing interest | <u>(19,313)</u> |
| Present value of minimum lease payments | <u>\$101,667</u> |

Note 7 - Retirement Plans

Public Employees Retirement System (OPERS)

The College's faculty is covered by the State Teachers Retirement Systems of Ohio (STRS). Substantially all other employees are covered by the Ohio Public Employees Retirement System (OPERS). This retirement program is a statewide cost-sharing multiple employer defined benefit pension plan. OPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute. OPERS issues separate, publicly-available financial reports that include financial statements and required supplementary information. That report may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or calling (614) 222-5601 or (800) 222-7377.

The Revised Code of Ohio (ORC) provides OPERS statutory authority for employee and employer contributions. The required contribution rates for plan members and employers at June 30, 2011 were 10% and 14% of covered payroll, respectively. Contributions made by the College, which represent 100% of the required contributions, for the years ended June 30, 2011, 2010, and 2009, were \$602,269, \$534,485, and \$503,866, respectively.

State Teachers Retirement System (STRS)

The College's faculty is covered under the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad Street, Columbus, Ohio 43215-3771 or calling (888) 227-7877.

Southern State Community College
Highland County
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 7 - Retirement Plans (Continued)

State Teachers Retirement System (STRS) (continued)

Effective July 1, 2001, two new plan options were offered to selected members. New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's beneficiary is entitled to receive the member's account balance.

Effective July 1, 2003, the member contribution rate was increased to the statutory maximum of 10%. The College was required to contribute 14%. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The College's required contributions for pension obligations for the fiscal years ended June 30, 2011, 2010, and 2009, were \$881,271, \$867,151, and \$768,835, respectively.

Alternative Retirement Plan (ARP)

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 Ohio Public Employees Retirement System (OPERS) or State Teachers Retirement System. The College Board of Trustees adopted such plan effective March 31, 1999. This plan is a defined contribution plan under IRS Section 401(a).

Eligible employees (those who are full-time and salaried) have 120 days from their date of hire to make an irrevocable election to participate in the alternate retirement plan. Under this plan, employees who would have otherwise been required to be in OPERS or STRS and who elect to participate in the alternate retirement program must contribute the employee's share of retirement contributions (10% OPERS, 10% STRS) to one of eight private providers approved by the State Department of Insurance. The legislation mandates that the employer must contribute the first 3.5% of the 14% employer contribution to the State Teachers Retirement System (STRS) with the remaining balance being sent to the ARP vendor selected by the employee. The College's required contribution rate for OPERS is 14%. This entire balance is to be paid to the member's ARP account. Vesting of all contributions made by the College occurs after five (5) years of service. For the year ended June 30, 2011, the College had two employees participate in the ARP. These employees were eligible to participate in STRS. The total employer contributions to the alternative retirement plan for the year ended June 30, 2011 were \$7,719.

Southern State Community College
Highland County
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 8 - Other Postemployment Benefits

Public Employees Retirement System (OPERS)

OPERS administers three separate pension plans: the Traditional Pension Plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an other postemployment benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, Attention: Finance Director, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

The Ohio Revised Code provides statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits.

Employer contribution rates are expensed as a percentage of the covered payroll of active members. In 2010, state employers contributed at a rate of 14% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for state employer units. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care Plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. For 2010, the employer contribution allocated to the health care plan from January 1 through February 28, 2010 and March 1 through December 31, 2010 were 5.5% and 5.0% of covered payroll, respectively. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The College's actual contributions for 2010, 2009, and 2008 which were used to fund OPEB were \$215,096, \$209,976, and \$244,656, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

State Teachers Retirement System (STRS)

STRS Ohio administers a pension plan that is comprised of: a defined benefit plan; a self-directed defined contribution plan and a combined plan which is a hybrid of the defined benefit and defined contribution plan.

**Southern State Community College
Highland County**
*Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010*

Note 8 - Other Postemployment Benefits (Continued)

State Teachers Retirement System (STRS) (continued)

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the defined benefit or combined plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent *Comprehensive Annual Financial Report* by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care for the years ended June 30, 2011, 2010, and 2009. The 14% employer contribution rate is the maximum rate established under Ohio law. For the fiscal years ended June 30, 2011, 2010, and 2009, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the College, these amounts equaled \$62,948, \$61,939, and \$54,917, respectively.

Note 9 - Compensated Absences

College faculty and support staff accrue vacation benefits; however, vacation carryover balances are limited to a maximum of 15 days. For all classes of employees, any earned but unused vacation benefit is payable upon termination. Sick leave may be accrued without limit. However, earned but unused sick leave benefits are payable only upon retirement from the College. The amount of sick leave benefit payable at retirement is one fourth of the value of the accrued but unused sick leave up to a maximum of 260 hours.

The College accrues sick leave liability for those employees who are currently eligible to receive termination payments as well as other employees who are expected to become eligible to receive such payments. This liability is calculated using the "vesting method" which is set forth in Appendix C, Example 5 of GASB Statement No. 16, *Accounting for Compensated Absences*. Under the vesting method, the College calculates the probability factor that employees will meet retention and eligibility requirements.

The liability for the cost of vacation and sick leave benefits was approximately \$1,014,387 and \$907,260 as of June 30, 2011 and 2010, respectively.

Note 10 - Bonds Payable

During fiscal year ended June 30, 2004, the College issued General Receipts Bonds, Series 2003. During fiscal year ended June 30, 2008, the College issued General Receipts Bonds, Series 2008. The following summarizes bonds payable as of June 30, 2011:

| | Balance June 30, 2010 | Additions | Deletions | Balance June 30, 2011 | Current Portion |
|--|--------------------------|------------|------------------|--------------------------|--------------------|
| Series 2003 bonds with interest ranging from 1.65% - 5.00% due serially through 2023 | \$2,180,000 | \$0 | \$115,000 | \$2,065,000 | \$120,000 |
| Series 2008 bonds with interest ranging from 3.5% - 5.05% due serially through 2025 | 2,705,000 | 0 | 100,000 | 2,605,000 | 100,000 |
| Total | <u>\$4,885,000</u> | <u>\$0</u> | <u>\$215,000</u> | <u>\$4,670,000</u> | <u>\$220,000</u> |

Southern State Community College
Highland County
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 10 - Bonds Payable (Continued)

Principal and interest amounts due within each of the next five years and thereafter on obligations outstanding at June 30, 2011, are as follows:

| Years Ended June 30, | Series 2003 | | Series 2008 | | Total Bonds | |
|-------------------------|--------------------|------------------|--------------------|--------------------|---------------------|--------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2012 | \$120,000 | \$98,003 | \$100,000 | \$120,823 | \$220,000 | \$218,826 |
| 2013 | 125,000 | 93,006 | 100,000 | 117,073 | 225,000 | 210,079 |
| 2014 | 130,000 | 87,425 | 100,000 | 113,073 | 230,000 | 200,498 |
| 2015 | 135,000 | 81,125 | 105,000 | 108,823 | 240,000 | 189,948 |
| 2016 | 140,000 | 74,250 | 115,000 | 104,360 | 255,000 | 178,610 |
| 2017-2021 | 815,000 | 241,125 | 660,000 | 439,450 | 1,475,000 | 680,575 |
| 2022-2026 | 600,000 | 61,000 | 825,000 | 273,383 | 1,425,000 | 334,383 |
| 2027-2029 | 0 | 0 | 600,000 | 61,000 | 600,000 | 61,000 |
| | <u>\$2,065,000</u> | <u>\$735,934</u> | <u>\$2,605,000</u> | <u>\$1,337,985</u> | <u>\$ 4,670,000</u> | <u>\$2,073,919</u> |

Mandatory Redemption. The Series 2003 and the Series 2008 are subject to mandatory sinking fund redemption on December 1 of the following years:

| | Series 2003 | Series 2008 | Total |
|------|--------------------|--------------------|--------------------|
| 2014 | \$135,000 | \$0 | \$135,000 |
| 2015 | 140,000 | 0 | 140,000 |
| 2016 | 145,000 | 0 | 145,000 |
| 2017 | 155,000 | 0 | 155,000 |
| 2018 | 165,000 | 0 | 165,000 |
| 2019 | 170,000 | 140,000 | 310,000 |
| 2020 | 180,000 | 145,000 | 325,000 |
| 2021 | 190,000 | 150,000 | 340,000 |
| 2022 | 200,000 | 155,000 | 355,000 |
| 2023 | 210,000 | 165,000 | 375,000 |
| 2024 | 0 | 175,000 | 175,000 |
| 2025 | 0 | 180,000 | 180,000 |
| 2026 | 0 | 190,000 | 190,000 |
| 2027 | 0 | 200,000 | 200,000 |
| 2028 | 0 | 210,000 | 210,000 |
| | <u>\$1,690,000</u> | <u>\$1,710,000</u> | <u>\$3,400,000</u> |

In connection with the General Receipts Bonds, the College has pledged future general revenues of the main campus, net of certain specified receipts such as state appropriations and taxes, to repay these bonds. The bonds are payable, through their final maturities, from net revenues applicable to the main campus. Annual principal and interest payments on the bonds are expected to require less than 1.4 percent of net revenues. Total principal and interest remaining to be paid on these bonds is \$6,743,919. Interest paid for the current year and total general revenues were \$224,348 and \$9,777,062, respectively.

Note 11 – Risk Management

The College is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters, for which the College carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

Southern State Community College
Highland County
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2011 and 2010

Note 12 – Subsequent Event

In September 2011, the College entered into an agreement with Red Bank, LLC to purchase property for an amount of \$3,250,000. The College intends to construct an additional campus on this property.

Southern State Community College
Highland County
Schedule of Federal Awards Expenditures
For the Fiscal Year Ended June 30, 2011

| Federal Grantor/Pass Through Grantor/Program Title | Pass Through Entity Number | Federal CFDA Number | Disbursements |
|---|-------------------------------|------------------------|---------------------|
| <u>United States Department of Education</u> | | | |
| <i>Direct from the Federal Agency</i> | | | |
| Student Financial Aid Cluster: | | | |
| Federal Supplemental Educational Opportunity Grants | N | 84.007 | \$134,839 |
| Federal Direct Student Loans | N | 84.268 | 8,158,837 |
| Federal Work-Study Program | N | 84.033 | 49,859 |
| Federal Pell Grant Program | N | 84.063 | 9,969,194 |
| Academic Competitiveness Grants | N | 84.375 | <u>50,053</u> |
| Total Student Financial Aid Cluster | | | 18,362,782 |
| <i>Passed through the Ohio Department of Education</i> | | | |
| Career and Technical Education - Basic Grants to States | N/A | 84.048 | 77,486 |
| <i>Passed through the Ohio Board of Regents</i> | | | |
| State Fiscal Stabilization Fund (SFSF) Cluster: | | | |
| State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act | N/A | 84.394 | 1,001,867 |
| State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act | N/A | 84.397 | <u>147,802</u> |
| Total State Fiscal Stabilization Fund (SFSF) Cluster | | | <u>1,149,669</u> |
| Total United States Department of Education | | | 19,589,937 |
| <u>United States Department of Agriculture</u> | | | |
| <i>Passed through the Ohio Department of Agriculture</i> | | | |
| Child and Adult Care Food Program | 135426-CCMN | 10.558 | 20,007 |
| Child and Adult Care Food Program | 135426-LUCN | 10.558 | <u>1,276</u> |
| Total Child and Adult Care Food Program | | | 21,283 |
| <i>Direct from the Federal Agency</i> | | | |
| Rural Business Enterprise Grant | N | 10.769 | <u>81,912</u> |
| Total United States Department of Agriculture | | | <u>103,195</u> |
| Total Federal Financial Assistance | | | <u>\$19,693,132</u> |

N/A - pass through entity number not available.

N - direct award.

The notes to the schedule of federal awards expenditures are an integral part of this statement.

Southern State Community College
Highland County
Notes to the Schedule of Federal Awards Expenditures
For the Fiscal Year Ended June 30, 2011

Note 1 – Basis of Presentation

The accompanying schedule of federal awards expenditures is a summary of the activity of the College's federal award programs. The schedule has been prepared on the cash basis of accounting.

Note 2 – Federal Direct Student Loans

The College participates in the Federal Direct Student Loan Program. The dollar amounts listed in the schedule of federal awards expenditures represents new loans advanced during the fiscal year ended June 30, 2011. The College is a direct lender for these loan funds; however, they are not responsible for collecting these loans in future periods.

Note 3 – Child Care Food Subsidy

Non-monetary assistance is reported in the schedule of federal awards expenditures at the fair market value of the commodities received and disbursed. Monies are commingled with state grants. It is assumed that federal monies are expended first. At June 30, 2011, the College had no significant commodities in inventory.

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

Board of Trustees
Southern State Community College
100 Hobart Drive
Hillsboro, Ohio 45133

We have audited the financial statements of Southern State Community College, Highland County (the College), which is a component unit of the State of Ohio, as of and for the year ended June 30, 2011, and have issued our report thereon dated October 12, 2011. 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.

Internal Control Over Financial Reporting

Management of the College is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Southern State Community College
Highland County

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

Page 2

This report is intended solely for the information and use of management, the Board of Trustees, others within the College, 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.



Natalie Millhuff-Stang, CPA
President/Owner
Millhuff-Stang, CPA, Inc.

October 12, 2011

Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Board of Trustees
Southern State Community College
100 Hobart Drive
Hillsboro, Ohio 45133

Compliance

We have audited the compliance of Southern State Community College, Highland County, (the College) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended June 30, 2011. The College's major federal programs are 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 each of its major federal programs 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 the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. 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 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 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

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 the requirements that could have a direct and material effect on a major federal program to determine the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

Southern State Community College
Highland County

Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Page 2

Internal Control Over Compliance (Continued)

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

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

This report is intended solely for the information and use of management, the Board of Trustees, others within the College, 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.



Natalie Millhuff-Stang, CPA
President/Owner
Millhuff-Stang, CPA, Inc.

October 12, 2011

**Southern State Community College
Highland County**
*Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
For the Fiscal Year Ended June 30, 2011*

Section I – Summary of Auditor’s Results

| | |
|---|--|
| <i>Financial Statements</i> | |
| Type of financial statement opinion: | Unqualified |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | No |
| Significant deficiency(ies) identified that are not considered to be material weaknesses? | None reported |
| Noncompliance material to financial statements noted? | No |
| <i>Federal Awards</i> | |
| Internal control over major program(s): | |
| Material weakness(es) identified? | No |
| Significant deficiency(ies) identified that are not considered to be material weaknesses? | None reported |
| Type of auditor’s report issued on compliance for major programs: | Unqualified |
| Any auditing findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? | No |
| Identification of major program(s): | Student Financial Aid Cluster: Federal Supplemental Educational Opportunity Grants (CFDA 84.007), Federal Work-Study Program (CFDA 84.033), Federal Pell Grant Program (CFDA 84.063), Federal Direct Student Loans (CFDA 84.268), Academic Competitiveness Grants (CFDA 84.375) State Fiscal Stabilization Fund (SFSF) Cluster: State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act (CFDA 84.394) and State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act (CFDA 84.397) |
| Dollar threshold used to distinguish between type A and type B programs: | \$590,793 |
| Auditee qualified as low-risk auditee? | Yes |

Section II – Financial Statement Findings

None

Section III – Federal Award Findings and Questioned Costs

None

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Dave Yost • Auditor of State

SOUTHERN STATE COMMUNITY COLLEGE

HIGHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 29, 2011**