

Southern State Community College
Highland County
Single Audit
For the Fiscal Years Ended June 30, 2018 and 2017



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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, 2017 through June 30, 2018. 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 8, 2018

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Southern State Community College
Highland County
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For the Fiscal Years Ended June 30, 2018 and 2017

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Independent Auditor's Report

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

Report on the Financial Statements

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, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the College's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of Southern State Community College, Highland County, as of June 30, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in note 12 to the financial statements, during fiscal year 2018, the College adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". The 2018 financial statements have been restated due to this implementation. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the College's proportionate share of the net pension liability and net OPEB liability, and the schedule of College contributions on pages 4 through 9, 46 through 47, and 48, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The schedule of federal awards expenditures, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2018 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control over financial reporting and compliance.



Natalie Millhuff-Stang, CPA, CITP
President/Owner
Millhuff-Stang, CPA, Inc.
Portsmouth, Ohio

October 12, 2018

**Southern State Community College
Highland County**
*Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2018 and 2017
(Unaudited)*

Accounting Standards

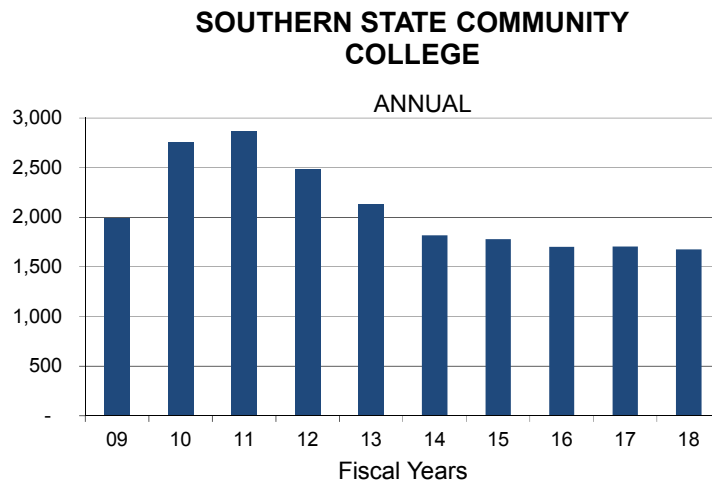
In June 1999, the Governmental Accounting Standards Board (GASB) released Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," which established a new reporting format for annual financial statements. In November 1999, GASB released 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 the 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 seventeenth year using this format.

The annual report consists of three basic financial statements that provide information on the College: the statement of net position; the statement of revenues, expenses and changes in net position; and the statement of cash flows. Each one of these statements will be discussed.

Financial and Enrollment Highlights

- In FY 18 the College experienced a decrease in full-time equivalent enrollment of -1.6%.
- Gross student fee revenue comparably decreased -1.5%.



- State Appropriations decreased .4%.
- Health care costs increased by 6.8%.

Statement of Net Position

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

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For the Fiscal Years Ended June 30, 2018 and 2017
(Unaudited)

	FY 18	FY 17*	FY 16
Assets			
Current assets	\$10,617,424	\$9,509,030	\$7,985,740
Noncurrent assets	3,029,295	3,060,832	2,796,617
Capital assets, net	28,762,615	29,133,805	30,278,629
Total assets	<u>42,409,334</u>	<u>41,703,667</u>	<u>41,060,986</u>
Deferred outflows of resources	4,698,764	4,911,676	3,906,432
Liabilities			
Current liabilities	5,909,372	4,041,224	1,507,838
Noncurrent liabilities	33,836,030	36,800,904	36,333,574
Total liabilities	<u>39,745,402</u>	<u>40,842,128</u>	<u>37,841,412</u>
Deferred inflows of resources	4,864,737	3,153,936	4,476,978
Net position			
Net investment in capital assets	14,837,452	14,203,998	14,391,980
Restricted	3,500,203	4,564,009	4,675,903
Unrestricted	(15,839,696)	(16,148,728)	(16,418,855)
Total net position	<u>\$2,497,959</u>	<u>\$2,619,279</u>	<u>\$2,649,028</u>

*As restated. See note 12 of the basic financial statements for more information.

Receivables include student accounts for tuition, company accounts for training, and grant receivables. Deferred inflows of resources in FY18 and FY17 are largely a result of the implementation and continued reporting in accordance with GASB 68 and GASB 75. These balances decreased in FY18 and increased in FY17 due to changes in actuarially determined deferrals and the net pension liability and net OPEB liability recognized by the College. See below for more discussion on GASB 68 and GASB 75. Long-term liabilities include deferred compensation (accrued vacation and sick days), outstanding balances of bond issues, and the College's proportionate share of the State-wide net pension liability and net OPEB liability. The overall decrease in noncurrent liabilities is due to a decrease in the actuarially determined net pension liability and by bond principal payments, which was partially offset by an increase in the actuarially determined net OPEB liability. Net position includes the net investment in capital assets and both restricted and unrestricted funds. Total net position decreased 4.6% from FY 17 to FY 18.

The net pension liability (NPL) is the largest single liability reported by the College at June 30, 2018 and is reported pursuant to GASB Statement 68, *Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement 27*. For fiscal year 2018, the College adopted GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the College's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB

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accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the College's proportionate share of each plan's collective:

1. Present value of estimated future pension/OPEB benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the College is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the College's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the College is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting.

Statement of Revenues, Expenses and Changes in Net Position

The statement of revenues, expenses and changes in net position 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.

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(Unaudited)

	FY 18	FY 17*	FY 16
Operating revenue:			
Net tuition and fees	\$5,912,328	\$6,178,110	\$5,849,847
Auxiliary	1,231,395	1,493,992	1,763,634
Grants and contracts	1,274,538	504,917	887,453
Other	483,791	367,621	355,471
Total	<u>8,902,052</u>	<u>8,544,640</u>	<u>8,856,405</u>
Operating expenses			
Instructional	4,367,100	7,250,480	7,438,750
Research	7,742	38,294	0
Community service	618,222	892,060	758,061
Academic support	1,562,831	2,466,988	2,376,593
Student services	1,576,805	2,050,322	1,999,747
Institutional support	1,435,369	1,353,427	2,922,803
Plant operations	1,377,420	1,596,270	1,538,753
Depreciation	1,307,820	1,306,372	1,319,567
Scholarships	2,748,664	3,018,419	3,545,386
Auxiliary	1,150,103	1,554,014	1,790,606
Total	<u>16,152,076</u>	<u>21,526,646</u>	<u>23,690,266</u>
Operating loss	(7,250,024)	(12,982,006)	(14,833,861)
Nonoperating revenues (expenses):			
Federal grants	3,955,804	4,108,866	4,819,374
State subsidy	8,006,995	8,324,677	8,503,202
Investment income	286,595	329,767	80,631
Interest on capital asset-related debt	(501,042)	(523,448)	(545,330)
Capital appropriations	747,116	161,547	232,187
Addition to endowments	4,748	14,920	12,065
Gain on sale	0	0	533,712
Other nonoperating revenue (expenses)	0	535,928	(35,344)
Total	<u>12,500,216</u>	<u>12,952,257</u>	<u>13,600,497</u>
Change in net position	5,250,192	(29,749)	(1,233,364)
Net position - beginning of year - restated	<u>(2,752,233)</u>	<u>2,649,028</u>	<u>3,882,392</u>
Net position - end of year	<u>\$2,497,959</u>	<u>\$2,619,279</u>	<u>\$2,649,028</u>

*As restated. See note 12 of the basic financial statements for more information.

Net tuition and fees represents gross student fee revenue of \$7,452,214 in FY 18 and \$7,566,586 in FY 17 net of scholarship allowances of \$1,539,886 and \$1,388,476 for those years, respectively. Auxiliary revenue consists of the non-grant portion of corporate and community services. These revenues decreased slightly due to enrollment decline. Operating expense decreases primarily reflect decreases in scholarship expenses, and enrollment driven costs, in addition to negative pension and OPEB expenses, based on actuarially determined information, allocated amongst various functions.

State appropriation in both FY18 and FY17 represented 64% of non-operating revenues (expenses).

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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 18	FY 17	FY 16
Cash provided by (used in):			
Operating activities	(\$9,661,809)	(\$10,356,320)	(\$12,736,140)
Non-capital financing activities	11,967,547	12,984,391	13,299,297
Capital and related financing activities	(1,665,556)	(1,478,449)	(809,279)
Investing activities	136,977	43,928	(84,135)
Net increase (decrease) in cash	777,159	1,193,550	(330,257)
Cash - beginning of year	5,880,247	4,686,697	5,016,954
Cash - end of year	\$6,657,406	\$5,880,247	\$4,686,697

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 \$28,762,615 at June 30, 2018 and \$29,133,805 at June 30, 2017 a decrease of \$371,190 from the prior year-end. Additions to capital assets during the year totaled \$936,630 and disposals were \$0 in FY18. Depreciation expense for the year ended June 30, 2018 totaled \$1,307,820. For more information on capital assets, see note 4 to the basic financial statements.

Debt

As of June 30, 2018, the College had outstanding debt of \$14,550,000 of which \$1,000,000 was short-term (or due within one year) and \$13,550,000 was long-term debt (would come due beyond one year). The outstanding debt related to three 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, and the construction of a new Brown County campus, which will replace the existing facility. The Patriot Center was completed in March of 2005. The Fayette expansion was completed in 2009. The construction of the new Brown County Campus began March 2013, and completed in July 2014. For more information on debt, see note 10 to the basic financial statements.

Economic Factors that will effect the Future

Challenges

- The College continues to have one of the lowest tuition rates in the state among non-levy state colleges. Maintaining the appropriate balance between affordability and quality is an ongoing challenge.
- Declining enrollment closely tied to growing economy, the minimal increases in our state share of instruction (SSI) as well as the recent mandated tuition freeze have put pressure on the College's primary resources.
- Being proactive to shifting enrollment patterns overall and within existing programs in particular.

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Opportunities

- Enrollment composition shifts present what may be a new normal. The demand for online courses has increased substantially. FY 2018 was the third year for the state's College Credit Plus Program. This new program has been well received and these enrollments represent a greater portion of our enrollments than ever before. This program presents significant savings to families, and helps to explain the fact that although credits declined slightly this year, our student headcount has increased.
- The College plans to construct a campus in Adams County. This will be the College's fifth campus. There will be no debt associated with the construction, and planned opening of the facility will coincide with discontinued operations of a major local employer.
- Additional resources have been directed to support online program demand.

Southern State Community College
Highland County
Statements of Net Position
As of June 30, 2018 and 2017

	2018		2017	
	College	Foundation	College	Foundation
Assets:				
Current assets:				
Cash	\$2,503,506	\$0	\$3,016,007	\$0
Cash equivalents	3,596,855	10,656	2,041,091	95,605
Accounts receivable, net	3,820,459	0	3,727,544	0
Pledges receivable	0	4,524	0	5,223
Prepaid expenses	532,522	0	416,875	0
Inventories	9,633	0	12,535	0
Other assets	137,414	1,855	192,295	1,855
Total current assets	10,600,389	17,035	9,406,347	102,683
Noncurrent assets:				
Restricted cash equivalents	423,091	123,298	637,100	90,444
Restricted investments	0	2,482,906	0	2,333,288
Capital assets, net	28,762,615	0	29,133,805	0
Total noncurrent assets	29,185,706	2,606,204	29,770,905	2,423,732
Total assets	39,786,095	2,623,239	39,177,252	2,526,415
Deferred outflows of resources:				
Pension plans	4,365,839	0	4,911,676	0
OPEB plans	332,925	0	0	0
Total deferred outflows of resources	4,698,764	0	4,911,676	0
Liabilities:				
Current liabilities:				
Accrued liabilities	350,341	0	347,232	0
Held in custody for others	4,559,031	0	2,718,992	0
Bonds payable, current portion	1,000,000	0	975,000	0
Total current liabilities	5,909,372	0	4,041,224	0
Noncurrent liabilities:				
Bonds payable, long-term portion	13,550,000	0	14,550,000	0
Compensated absences	140,164	0	204,165	0
Net pension liability	15,230,534	0	22,046,739	0
Net OPEB liability	4,915,332	0	0	0
Total noncurrent liabilities	33,836,030	0	36,800,904	0
Total liabilities	39,745,402	0	40,842,128	0
Deferred inflows of resources				
Grants and contracts	671,835	0	191,676	0
Pension plans	3,707,760	0	2,962,260	0
OPEB plans	485,142	0	0	0
Total deferred inflows of resources	4,864,737	0	3,153,936	0
Net position:				
Net investment in capital assets	14,837,452	0	14,203,998	0
Restricted for:				
Nonexpendable:				
Endowments	12,318	2,456,693	12,318	2,350,744
Expendable:				
Loans	17,696	0	17,696	0
Scholarships and fellowships	0	89,312	0	105,194
Other	924,184	0	2,078,057	0
Unrestricted (deficit)	(15,916,930)	77,234	(16,219,205)	70,477
Total net position	(\$125,280)	\$2,623,239	\$92,864	\$2,526,415

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 Position
For the Fiscal Years Ended June 30, 2018 and 2017

	2018		2017	
	College	Foundation	College	Foundation
Revenues:				
Operating revenues:				
Student tuition and fees (net of scholarship allowance)	\$5,912,328	\$0	\$6,178,110	\$0
State grants and contracts	1,058,824	0	264,642	0
Local grants and contracts	63,294	0	64,105	0
Private grants and contracts	115,393	37,027	141,628	34,542
Auxiliary services	1,231,395	0	1,493,992	0
Other operating revenue	483,791	0	367,621	0
Total operating revenue	8,865,025	37,027	8,510,098	34,542
Expenses:				
Operating expenses:				
Instructional	4,367,100	0	7,250,480	0
Research	7,742	0	38,294	0
Community service	618,222	0	892,060	0
Academic support	1,562,831	0	2,466,988	0
Student services	1,449,834	126,971	1,995,969	54,353
Institutional support	1,435,369	0	1,353,427	0
Plant operations	1,377,420	0	1,596,270	0
Depreciation	1,307,820	0	1,306,372	0
Scholarships	2,748,664	0	3,018,419	0
Auxiliary activities	1,150,103	0	1,554,014	0
Total operating expenses	16,025,105	126,971	21,472,293	54,353
Operating loss	(7,160,080)	(89,944)	(12,962,195)	(19,811)
Nonoperating revenues (expenses)				
Federal grants and contracts	3,955,804	0	4,108,866	0
State appropriations	8,006,995	0	8,324,677	0
Investment income (net of investment expense)	104,575	182,020	54,602	275,165
Interest on capital asset-related debt	(501,042)	0	(523,448)	0
Other nonoperating revenues (expenses)	0	0	535,928	0
Total nonoperating revenues (expenses)	11,566,332	182,020	12,500,625	275,165
Income (loss) before other revenues, expenses, gains, losses	4,406,252	92,076	(461,570)	255,354
Capital appropriations	747,116	0	161,547	0
Additions to (return of) permanent endowments	0	4,748	0	14,920
Change in net position	5,153,368	96,824	(300,023)	270,274
Net position - beginning of year - restated	(5,278,648)	2,526,415	392,887	2,256,141
Net position - end of year	(\$125,280)	\$2,623,239	\$92,864	\$2,526,415

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, 2018 and 2017

	2018		2017	
	College	Foundation	College	Foundation
Cash flows from operating activities:				
Tuition and fees	\$6,299,572	\$0	\$6,119,247	\$0
Grants and contracts	1,237,511	0	470,375	0
Private gifts	0	37,726	0	34,047
Payments to suppliers	(4,284,029)	0	(4,183,317)	0
Payments for utilities	(527,730)	0	(456,973)	0
Payments to employees	(9,838,948)	0	(9,817,405)	0
Payments for benefits	(3,265,501)	0	(3,872,960)	0
Scholarships	(2,748,664)	(126,971)	(3,018,419)	(54,353)
Auxiliary enterprise charges	1,231,395	0	1,493,992	0
Other receipts	2,323,830	0	2,929,446	0
Net cash used by operating activities	(9,572,564)	(89,245)	(10,336,014)	(20,306)
Cash flows from noncapital financing activities:				
Federal grants and contracts	3,955,804	0	4,108,866	0
State appropriations	8,006,995	0	8,324,677	0
Other nonoperating revenues (expenses)	0	4,748	535,928	14,920
Net cash provided by noncapital financing activities	11,962,799	4,748	12,969,471	14,920
Cash flows from capital and related financing activities:				
Capital appropriations	747,116	0	161,547	0
Purchase of capital assets	(936,630)	0	(161,548)	0
Principal paid on capital debt and lease	(975,000)	0	(955,000)	0
Interest paid on capital debt and lease	(501,042)	0	(523,448)	0
Net cash used by capital and related financing activities	(1,665,556)	0	(1,478,449)	0
Cash flows from investing activities:				
Interest on investments	104,575	182,020	54,602	275,165
(Purchase) sale of investments	0	(149,618)	0	(285,839)
Net cash provided (used) by investing activities	104,575	32,402	54,602	(10,674)
Net increase (decrease) in cash and cash equivalents	829,254	(52,095)	1,209,610	(16,060)
Cash and cash equivalents - beginning of year	5,694,198	186,049	4,484,588	202,109
Cash and cash equivalents - end of year	\$6,523,452	\$133,954	\$5,694,198	\$186,049
Reconciliation of operating loss to net cash used by operating activities:				
Operating loss	(\$7,160,080)	(\$89,944)	(\$12,962,195)	(\$19,811)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Depreciation expense	1,307,820	0	1,306,372	0
Changes in assets and liabilities:				
Receivables, net	(92,915)	699	91,261	(495)
Inventories	2,902	0	3,337	0
Other assets	54,881	0	14,656	0
Accrued liabilities	3,109	0	(48,439)	0
Deferred outflows of resources-pension/OPEB	212,912	0	(1,005,244)	0
Deferred inflows of resources-grants and contracts	480,159	0	(150,124)	0
Deferred inflows of resources-pension/OPEB	1,230,642	0	(1,172,918)	0
Net pension liability	(6,816,205)	0	1,481,190	0
Net OPEB liability	(456,180)	0	0	0
Deposits held for others	1,840,039	0	2,561,825	0
Compensated absences	(64,001)	0	(38,860)	0
Prepaid expenses	(115,647)	0	(416,875)	0
Net cash used by operating activities	(\$9,572,564)	(\$89,245)	(\$10,336,014)	(\$20,306)

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, 2018 and 2017

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.

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 and STAR Plus funds and money market funds, which amounted to \$4,153,900 and \$2,864,240 at June 30, 2018 and 2017, respectively.

During fiscal years 2018 and 2017, the College and Foundation invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, *Certain External Investment Pools and Pool Participants*. The College and Foundation measure their investments in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For fiscal years 2018 and 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserved the right to limit the transaction to \$100 million for fiscal year 2018 and \$50 million for fiscal year 2017. All accounts of the participant will be combined for these purposes.

Southern State Community College
Highland County
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2018 and 2017

Note 1 - Summary of Significant Accounting Policies (Continued)

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, 2018 and 2017, investments held by the College and Foundation were valued at \$2,482,906 and \$2,333,288, 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.

Accounts and Pledges Receivables

At June 30, 2018 and 2017, accounts receivable consist primarily of student tuition and fees, third party, and intergovernmental grants and contracts. Student and third party accounts receivable are reported net of an allowance for doubtful accounts of \$615,231 and \$622,631 at June 30, 2018 and 2017, 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 office supplies and the truck driving academy tire stock. 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 acquisition 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 Inflows/Outflows of Resources

Deferred inflows of resources 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, 2018 and 2017. Deferred inflows of resources related to pensions/OPEB are explained in notes 6 and 7.

Deferred outflows of resources related to pensions/OPEB are explained in notes 6 and 7.

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

Southern State Community College
Highland County
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2018 and 2017

Note 1 - Summary of Significant Accounting Policies (Continued)

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/Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB plans report investments at fair value.

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, compensated absences, and net pension and OPEB liabilities. Actual results could differ from those estimates.

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, and Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). During fiscal years 2018 and 2017, the College distributed \$3,433,105 and \$3,799,889, respectively, for direct lending through the U.S. Department of Education, which is not included as revenues and expenses on the accompanying financial statements.

Net Position

Net position is classified according to external donor restrictions or availability of assets for satisfaction of College obligations. Capital assets, net of accumulated depreciation, reduced by related debt represents the College's net investment in capital assets. Nonexpendable restricted net position represents gifts that have been received for endowment purposes, the corpus of which cannot be expended. Expendable restricted net position represents funds that have been received for specific purposes. Unrestricted net position includes resources which can be used at the College's discretion.

Of the College's \$3,500,203 and \$4,564,009 in restricted net position at June 30, 2018 and 2017, respectively, none is restricted by enabling legislation.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the respective fiscal year end, are recorded as prepaid items. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Note 2 - Cash, Cash Equivalents and Investments

Statement No. 3 of the Governmental 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:

**Southern State Community College
Highland County**
*Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2018 and 2017*

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

	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.

Primary Government - College

At June 30, 2018, the carrying amount of the College's cash deposits was \$4,317,661 and the bank balance was \$5,173,872. At June 30, 2018, \$2,299,020 of the bank balance was insured by the FDIC (Category 1); the remaining bank balances were Category 3.

The College held \$1,554,877 in STAR Ohio investments, which is an external investment pool and is considered cash equivalents under GASB Statement No. 9. Oversight of the pool is through the Treasurer of State. The fair value of the College's position in the pool is the same as the value of its 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, 2018:		
STAR Ohio	\$1,554,877	\$1,554,877
Money Market Funds	650,914	650,914
Total Investments	<u>\$2,205,791</u>	<u>\$2,205,791</u>

At June 30, 2017, the carrying amount of the College's cash deposits was \$3,248,060 and the bank balance was \$3,832,800. At June 30, 2017, \$485,023 of the bank balance was insured by the FDIC (Category 1); the remaining bank balances were Category 3.

The College held \$1,809,038 in STAR Ohio investments, which is an external investment pool and is considered cash equivalents under GASB Statement No. 9. Oversight of the pool is through the Treasurer of State. The fair value of the College's position in the pool is the same as the value of its 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:

Southern State Community College
Highland County
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2018 and 2017

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

Description	Value	Less than One Year
June 30, 2017:		
STAR Ohio	\$1,809,038	\$1,809,038
Money Market Funds	637,100	637,100
Total Investments	<u>\$2,446,138</u>	<u>\$2,446,138</u>

Component Unit – Foundation

At June 30, 2018, the carrying amount of the Foundation's cash deposits was \$0 and the bank balance was \$0.

At June 30, 2017, the carrying amount of the Foundation's cash deposits was \$0 and the bank balance was \$0.

The following summarizes the market value of the Foundation's investments:

Description	Market Value	Investment Maturities (in years) Less than 1
June 30, 2018:		
STAR Ohio	\$10,656	\$10,656
Money market funds	123,297	123,297
Other Bonds	1,021,296	1,021,296
Common Stock	205,920	205,920
Equity Funds	1,255,690	1,255,690
Total Cash Equivalents & Investments	<u>\$2,616,859</u>	<u>\$2,616,859</u>

Description	Market Value*	Investment Maturities (in years) Less than 1
June 30, 2017:		
STAR Ohio	\$95,605	\$95,605
Money market funds	90,444	90,444
Other Bonds	864,922	864,922
Common Stock	170,820	170,820
Equity Funds	1,297,546	1,297,546
Total Cash Equivalents & Investments	<u>\$2,519,337</u>	<u>\$2,519,337</u>

*Restated. See note 12.

The College has categorized its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. STAR Ohio is reported at its share price. All other investments of the College are valued using pricing sources as provided by the investments managers (Level 1 inputs). The Foundation's money market fund, bond, and equity fund investments are also Level 1 inputs. STAR Ohio investments are valued as previously noted. Common stock investments are Level 3 inputs.

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

Southern State Community College
Highland County
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2018 and 2017

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

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, weighted average portfolio maturity may not exceed 10 years.

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, 2018 and 2017, the College's investments in STAR Ohio and money market funds were rated AAAM by Standard & Poor's.

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 and money market funds AAAM. All other investments are 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 and money market funds. These investments were 70% and 30%, respectively, as of June 30, 2018 and 74% and 26%, respectively, as of June 30, 2017, of the College's total investments.

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, 2018, more than 5% of the Foundation's investments are equity funds, common stock, and other bonds. These investments represent 48%, 8%, and 39% of the Foundation's total investments, respectively. For the fiscal year ended June 30, 2017, more than 5% of the Foundation's investments are equity funds, common stock, and other bonds. These investments represent 52%, 7%, and 34% 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.

Southern State Community College
Highland County
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2018 and 2017

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

Primary Government - Deposits. As of June 30, 2018, the College's bank balance of \$2,299,020 was either covered by FDIC or collateralized by the financial institution's public entity deposit pool in the manner described below.

The College has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or be protected by:

- Eligible securities pledged to the College and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured; or
- Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State.

As of June 30, 2017, \$485,023 was insured by FDIC. The remaining balance of \$3,347,777 was collateralized with securities held by the pledging institutions 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.

Note 3 – Accounts Receivable

Accounts receivable at June 30, 2018 was comprised of the following:

	Gross Receivables	Allowance For Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$3,278,668	(\$615,231)	\$2,663,437
Intergovernmental	153,803	(2,433)	151,370
Third Party	1,005,652	0	1,005,652
Total Current Receivables	\$4,438,123	(\$617,644)	\$3,820,459

Accounts receivable at June 30, 2017 was comprised of the following:

	Gross Receivables	Allowance For Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$3,274,164	(\$622,631)	\$2,651,533
Intergovernmental	48,239	(2,433)	45,806
Third Party	1,030,205	0	1,030,205
Total Current Receivables	\$4,352,608	(\$625,064)	\$3,727,544

Southern State Community College
Highland County
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2018 and 2017

Note 4 - Capital Assets

Capital asset activity for the years ended June 30, 2018 and 2017 were as follows:

June 30, 2018	Beginning	Additions	Deductions	Ending
Land	\$4,017,468	\$500,000	\$0	\$4,517,468
Non-depreciable artwork	51,900	0	0	51,900
Total cost of nondepreciable capital assets	4,069,368	500,000	0	4,569,368
Building and Improvements	37,031,364	219,357	0	37,250,721
Equipment	3,323,143	217,273	0	3,540,416
Library books	543,362	0	0	543,362
Vehicles	637,145	0	0	637,145
Total cost of depreciable capital assets	41,535,014	436,630	0	41,971,644
Total cost of capital assets	45,604,382	936,630	0	46,541,012
Less accumulated depreciation				
Buildings and Improvements	(12,948,753)	(1,003,514)	0	(13,952,267)
Equipment	(2,506,967)	(239,794)	0	(2,746,671)
Library books	(526,154)	(7,597)	0	(533,751)
Vehicles	(488,703)	(56,915)	0	(545,618)
Total accumulated depreciation	(16,470,577)	(1,307,820)	0	(17,778,397)
Net capital assets	\$29,133,805	(\$371,190)	0	\$28,762,615
June 30, 2017	Beginning	Additions	Deductions	Ending
Land	\$4,017,468	\$0	\$0	\$4,017,468
Non-depreciable artwork	51,900	0	0	51,900
Total cost of nondepreciable capital assets	4,069,368	0	0	4,069,368
Building and Improvements	36,869,816	161,548	0	37,031,364
Equipment	3,323,143	0	0	3,323,143
Library books	543,362	0	0	543,362
Vehicles	637,145	0	0	637,145
Total cost of depreciable capital assets	41,373,466	161,548	0	41,535,014
Total cost of capital assets	45,442,834	161,548	0	45,604,382
Less accumulated depreciation				
Buildings and Improvements	(11,950,000)	(998,753)	0	(12,948,753)
Equipment	(2,266,368)	(240,599)	0	(2,506,967)
Library books	(516,049)	(10,105)	0	(526,154)
Vehicles	(431,788)	(56,915)	0	(488,703)
Total accumulated depreciation	(15,164,205)	(1,306,372)	0	(16,470,577)
Net capital assets	\$30,278,629	(\$1,144,824)	0	\$29,133,805

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

Southern State Community College
Highland County
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2018 and 2017

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.

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 position.

Note 6 - Defined Benefit Pension Plans

Net Pension Liability

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

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

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

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

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Note 6 - Defined Benefit Pension Plans (Continued)

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

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description – College non-teaching employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. College employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information, including requirements for reduced and unreduced benefits):

Group A	Group B	Group C
Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	Members not in other Groups and members hired on or after January 7, 2013
State and Local	State and Local	State and Local
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	Age and Service Requirements: Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

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Note 6 - Defined Benefit Pension Plans (Continued)

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	2018	2017
Statutory Maximum Contribution Rates		
Employer	14.0 %	14.0 %
Employee	10.0 %	10.0 %
 Actual Contribution Rates		
Employer:		
Pension	14.0 %	13.0 %
Post-employment Health Care Benefits	0.0	1.0
Total Employer	14.0 %	14.0 %
Employee	10.0 %	10.0 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The College's contractually required contributions to OPERS were \$548,952 and \$434,753 for fiscal years 2018 and 2017, respectively.

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost of living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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Note 6 - Defined Benefit Pension Plans (Continued)

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2018, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The College's contractually required contributions to STRS were \$708,003 and \$741,740 for fiscal years 2018 and 2017, respectively.

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

The June 30, 2018 and June 30, 2017 net pension liabilities were measured as of December 31, 2017 and 2016 for OPERS and June 30, 2017 and 2016 for STRS, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The College's proportion of the net pension liability was based on the College's share of contributions to the pension plan relative to the contributions of all participating entities.

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Note 6 - Defined Benefit Pension Plans (Continued)

As of and for the year ended June 30, 2018, the proportionate share and pension expense were as follows:

	<u>OPERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability Prior Measurement Date	0.02775100%	0.04703777%	
Proportion of the Net Pension Liability Current Measurement Date	<u>0.02664300%</u>	<u>0.04651932%</u>	
Change in Proportionate Share	<u>-0.00110800%</u>	<u>-0.00051845%</u>	
Proportionate Share of the Net Pension Liability	\$4,179,770	\$11,050,764	\$15,230,534
Pension Expense	\$460,447	(\$4,993,737)	(\$4,533,290)

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

	<u>OPERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$4,269	\$426,729	\$430,998
Change in assumptions	499,509	2,416,923	2,916,432
Changes in proportionate share and difference between College contributions and proportionate share of contributions	25,488	1,343	26,831
College contributions subsequent to the measurement date	<u>283,575</u>	<u>708,003</u>	<u>991,578</u>
Total Deferred Outflows of Resources	<u>\$812,841</u>	<u>\$3,552,998</u>	<u>\$4,365,839</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$82,371	\$89,065	\$171,436
Net difference between projected and actual earnings on pension plan investments	897,342	364,688	1,262,030
Changes in proportionate share and difference between College contributions and proportionate share of contributions	<u>264,349</u>	<u>2,009,945</u>	<u>2,274,294</u>
Total Deferred Inflows of Resources	<u>\$1,244,062</u>	<u>\$2,463,698</u>	<u>\$3,707,760</u>

\$991,578 reported as deferred outflows of resources related to pension resulting from College contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

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Note 6 - Defined Benefit Pension Plans (Continued)

Fiscal Year Ending June 30:	<u>OPERS</u>	<u>STRS</u>	<u>Total</u>
2019	\$192,362	(\$247,890)	(\$55,528)
2020	176,576	248,210	424,786
2021	(785,649)	218,011	(567,638)
2022	<u>(298,085)</u>	<u>162,966</u>	<u>(135,119)</u>
Total	<u>(\$714,796)</u>	<u>\$381,297</u>	<u>(\$333,499)</u>

As of and for the year ended June 30, 2017, the proportionate share and pension expense were as follows:

	<u>OPERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability Prior Measurement Date	0.03099000%	0.05499036%	
Proportion of the Net Pension Liability Current Measurement Date	<u>0.02775100%</u>	<u>0.04703777%</u>	
Change in Proportionate Share	<u>-0.00323900%</u>	<u>-0.00795259%</u>	
Proportionate Share of the Net Pension Liability	\$6,301,780	\$15,744,959	\$22,046,739
Pension Expense	\$30,356	\$231,752	\$262,108

At June 30, 2017, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>OPERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$8,542	\$636,172	\$644,714
Net difference between projected and actual earnings on pension plan investments	938,480	1,307,256	2,245,736
Changes in proportion and differences	62,570	0	62,570
Change in assumptions	999,539	0	999,539
College contributions subsequent to the measurement date	<u>217,377</u>	<u>741,740</u>	<u>959,117</u>
Total Deferred Outflows of Resources	<u>\$2,226,508</u>	<u>\$2,685,168</u>	<u>\$4,911,676</u>
Deferred Inflows of Resources			
Difference between projected and actual experience	\$37,506	\$0	\$37,506
Changes in proportion and differences	<u>321,341</u>	<u>2,603,413</u>	<u>2,924,754</u>
Total Deferred Inflows of Resources	<u>\$358,847</u>	<u>\$2,603,413</u>	<u>\$2,962,260</u>

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Notes to the Basic Financial Statements
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Note 6 - Defined Benefit Pension Plans (Continued)

\$959,117 reported as deferred outflows of resources related to pension resulting from College contributions subsequent to the measurement date was recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense in subsequent years.

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liabilities in the December 31, 2017 and 2016, actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement in accordance with the requirements of GASB 67. Key methods and assumptions used in the latest actuarial valuations are presented as follows:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	3.25 percent to 10.75 percent
COLA or Ad Hoc COLA	Pre 1/7/13 retirees: 3.00% simple Post 1/7/13 retirees: 3.00% simple through 2018 then 2.15% simple
Investment Rate of Return	7.5 percent
Actuarial Cost Method	Individual Entry Age

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

The most recent experience study was for the 5 year period ended December 31, 2015.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets for the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return

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Note 6 - Defined Benefit Pension Plans (Continued)

expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio was 16.82% for 2017.

During 2016, OPERS managed investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 8.3 percent for 2016.

The allocation of investment assets within the Defined Benefit portfolio is approved by the Board as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The following table displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return.

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.20 %
Domestic Equities	19.00	6.37
Real Estate	10.00	5.26
Private Equity	10.00	8.97
International Equities	20.00	7.88
Other investments	18.00	5.26
Total	100.00 %	5.66 %

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2016 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.75 %
Domestic Equities	20.70	6.34
Real Estate	10.00	4.75
Private Equity	10.00	8.97
International Equities	18.30	7.95
Other investments	18.00	4.92
Total	100.00 %	5.66 %

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Note 6 - Defined Benefit Pension Plans (Continued)

Discount Rate The discount rate used to measure the total pension liabilities was 7.5 percent for the December 31, 2017 and 2016 actuarial valuations, respectively. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the College's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the College's proportionate share of the net pension liability calculated using the current period discount rate of 7.5 percent, as well as what the College's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5 percent), or one percentage point higher (8.5 percent) than the current rate.

For the year ended June 30, 2018:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
College's proportionate share of the net pension liability	\$7,422,207	\$4,179,770	\$1,476,555

For the year ended June 30, 2017:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
College's proportionate share of the net pension liability	\$9,627,377	\$6,301,780	\$3,530,482

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2017 actuarial valuation, compared with July 1, 2016 are presented below:

Inflation	2.50 percent	2.75 percent
Projected salary increases	2.50 percent at age 65 to 12.50 percent at age 20	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation	7.75 percent, net of investment expenses
Payroll Increases	3.00 percent	3.50 percent
Cost-of-Living Adjustments (COLA)	0.00 percent effective July 1, 2017	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date.

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Note 6 - Defined Benefit Pension Plans (Continued)

For 2017, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

For 2016, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and no set back from age 90 and above.

Actuarial assumptions used in the July 1, 2017 valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016. Actuarial assumptions used in the June 30, 2016 valuations are based on the results of an actuarial experience study, effective July 1, 2012.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

For the year ended June 30, 2017:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	100.00 %	

*10-Year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS Ohio's investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

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Note 6 - Defined Benefit Pension Plans (Continued)

For the year ended June 30, 2016:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	<u>1.00</u>	<u>3.00</u>
Total	<u>100.00 %</u>	<u>7.61 %</u>

Discount Rate The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017 and 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017 and 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017 and 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

Sensitivity of the College's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following tables present the College's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45 percent for 2017 and 7.75 percent for 2016, as well as what the College's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent for 2017 and 6.75 percent for 2016) or one-percentage-point higher (8.45 percent for 2017 and 8.75 percent for 2016) than the current rate:

For the year ended June 30, 2018:

	<u>1% Decrease (6.45%)</u>	<u>Current Discount Rate (7.45%)</u>	<u>1% Increase (8.45%)</u>
College's proportionate share of the net pension liability	\$15,840,894	\$11,050,764	\$7,015,797

For the year ended June 30, 2017:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
College's proportionate share of the net pension liability	\$20,923,772	\$15,744,959	\$11,376,326

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Note 7 - Defined Benefit OPEB Plans

Net OPEB Liability

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

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

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

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net OPEB liability* on the accrual basis of accounting. Any liability for the contractually-required OPEB contribution outstanding at the end of the year is included in *accrued liabilities* on the accrual basis of accounting.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description – Ohio Public Employees Retirement System (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 health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined plans. This trust is also used to fund health care for Member-Directed Plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, Member-Directed Plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 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 Post Employment Benefit (OPEB) as described in GASB Statement 45. Please see the Plan Statement in the OPERS CAFR for details.

Southern State Community College
Highland County
Notes to the Basic Financial Statements
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Note 7 - Defined Benefit OPEB Plans (Continued)

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the OPERS Board of Trustees (OPERS Board) in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml#CAFR>, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides the statutory authority requiring public employers to fund health care through their contributions to OPERS. A portion of each employer’s contribution to OPERS may be set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In fiscal year 2018, State and Local employers contributed at a rate of 14.0% of earnable salary. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0% during calendar year 2017. As recommended by OPERS’ actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0.0% for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided.

Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited for Member-Directed Plan participants for fiscal year 2018 was 4.0%.

The College’s contractually required contribution to OPERS was \$20,414 for fiscal year 2018.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians’ fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2018, STRS did not allocate any employer contributions to post-employment health care.

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Note 7 - Defined Benefit OPEB Plans (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

OPERS net OPEB liability was measured as of December 31, 2017 and STRS net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of those dates. The College's proportion of the net OPEB liability was based on the College's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	<u>OPERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net OPEB Liability Prior Measurement Date	0.03001170%	0.04703777%	
Proportion of the Net OPEB Liability Current Measurement Date	<u>0.02855000%</u>	<u>0.04651932%</u>	
Change in Proportionate Share	<u>-0.00146170%</u>	<u>-0.00051845%</u>	
Proportionate Share of the Net OPEB Liability	\$3,100,320	\$1,815,012	\$4,915,332
OPEB Expense	\$249,881	(\$553,844)	(\$303,963)

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

	<u>OPERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$2,415	\$104,774	\$107,189
Changes of assumptions	<u>225,736</u>	<u>0</u>	<u>225,736</u>
Total Deferred Outflows of Resources	<u>\$228,151</u>	<u>\$104,774</u>	<u>\$332,925</u>
Deferred Inflows of Resources			
Changes of assumptions	\$0	\$146,205	\$146,205
Net difference between projected and actual earnings on OPEB plan investments	230,953	77,578	308,531
Difference between College contributions and proportionate share of contributions	<u>30,406</u>	<u>0</u>	<u>30,406</u>
Total Deferred Inflows of Resources	<u>\$261,359</u>	<u>\$223,783</u>	<u>\$485,142</u>

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Note 7 - Defined Benefit OPEB Plans (Continued)

\$0 reported as deferred outflows of resources related to OPEB resulting from College contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30:	OPERS	STRS	Total
2019	\$36,805	(\$26,300)	\$10,505
2020	36,805	(26,300)	10,505
2021	(49,079)	(26,300)	(75,379)
2022	(57,739)	(26,302)	(84,041)
2023	0	(6,906)	(6,906)
Thereafter	0	(6,901)	(6,901)
Total	(\$33,208)	(\$119,009)	(\$152,217)

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of health care costs for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between the System and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017.

The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

Actuarial Valuation Date	December 31, 2016
Rolled-Forward Measurement Date	December 31, 2017
Experience Study	5-Year Period Ended December 31, 2015
Actuarial Cost Method	Individual Entry Age Normal
Single Discount Rate	3.85 percent
Investment Rate of Return	6.50 percent
Municipal Bond Rate	3.31 percent
Wage Inflation	3.25 percent
Projected Salary Increases, includes inflate rate	3.25 percent to 10.75 percent
Health Care Cost Trend Rate	
Initial	7.50 percent
Ultimate in 2028	3.25 percent

Southern State Community College
Highland County
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2018 and 2017

Note 7 - Defined Benefit OPEB Plans (Continued)

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

The long-term expected rate of return on health care investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio is 15.2% for 2017.

The allocation of investment assets within the Health Care portfolio is approved by the Board as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. The System's primary goal is to achieve and maintain a fully funded status for benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return</u>
Fixed Income	34.00 %	1.88 %
Domestic Equities	21.00	6.37
REITs	6.00	5.91
International Equities	22.00	7.88
Other Investments	17.00	5.39
Total	100.00 %	4.98 %

**Southern State Community College
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*Notes to the Basic Financial Statements
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Note 7 - Defined Benefit OPEB Plans (Continued)

Discount Rate A single discount rate of 3.85% was used to measure the OPEB liability on the measurement date of December 31, 2017. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.50% and a municipal bond rate of 3.31%. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the College's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the OPEB liability calculated using the single discount rate of 3.85%, and the expected net OPEB liability if it were calculated using a discount rate that is 1.0% lower or 1.0% higher than the current rate.

	1% Decrease (2.85%)	Single Discount Rate (3.85%)	1% Increase (4.85%)
College's proportionate share of the net OPEB liability	\$4,118,909	\$3,100,320	\$2,276,292

Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0% lower or 1.0% higher than the current rate.

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2018 is 7.50%. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25% in the most recent valuation.

	1% Decrease	Current Health Care Cost Trend Rate Assumption	1% Increase
College's proportionate share of the net OPEB liability	\$2,966,345	\$3,100,320	\$3,238,712

Southern State Community College
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Notes to the Basic Financial Statements
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Note 7 - Defined Benefit OPEB Plans (Continued)

Actuarial Assumptions – STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2017, actuarial valuation are presented below:

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017
Blended Discount Rate of Return	4.13 percent
Health Care Cost Trends	6 to 11 percent initial, 4.5 percent ultimate

Projections of benefits include the historical pattern of sharing benefit costs between the employers and retired plan members.

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. For disabled retirees, mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2017, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

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Highland County**
*Notes to the Basic Financial Statements
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Note 7 - Defined Benefit OPEB Plans (Continued)

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Rate of Return *
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	100.00 %	

* 10 year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actual rate of return, without net value added by management.

Discount Rate The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members. The OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2037. Therefore, the long-term expected rate of return on OPEB plan assets was used to determine the present value of the projected benefit payments through the fiscal year ending June 30, 2036 and the Bond Buyer 20-year municipal bond rate of 3.58 percent as of June 30, 2017 (i.e. municipal bond rate), was used to determine the present value of the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017. A blended discount rate of 3.26 percent which represents the long term expected rate of return of 7.75 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

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Note 7 - Defined Benefit OPEB Plans (Continued)

Sensitivity of the College's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13 percent) or one percentage point higher (5.13 percent) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
College's proportionate share of the net OPEB liability	\$2,436,625	\$1,815,012	\$1,323,735

	1% Decrease	Current Trend Rate	1% Increase
College's proportionate share of the net OPEB liability	\$1,260,993	\$1,815,012	\$2,544,167

Note 8 - Other Postemployment Benefits – GASB 45

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.

In March 2016, OPERS received two favorable rulings from the Internal Revenue Service (IRS) allowing OPERS to consolidate all health care assets into the OPERS 115 Health Care Trust. Transition to the new health care trust structure was completed July 1, 2016. As of December 31, 2016, OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage. OPERS funds a Retiree Medical Account (RMA) for participants in the Member-Directed Plan. At retirement or refund, participants can be reimbursed for qualified medical expenses from their vested RMA balance.

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 20 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. Please see the plan statement in the OPERS CAFR for details.

Southern State Community College
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Notes to the Basic Financial Statements
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Note 8 - Other Postemployment Benefits – GASB 45 (Continued)

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 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 health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2018 and 2017, state and local employers contributed at a rate of 14% of earnable salary. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0% during calendar year 2016. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2017 decreased to 1.0% for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2016 was 4.0%.

The College's actual contributions for 2017 and 2016, which were used to fund OPEB were \$84,671 and \$82,079.

State Teachers Retirement System (STRS)

Plan Description – STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan, a self-directed Defined Contribution Plan, and a Combined Plan that is a hybrid of the Defined Benefit Plan and the Defined Contribution Plan.

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS 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 partial reimbursement of monthly Medicare Part B premiums.

Pursuant to Chapter 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. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS website at www.strsoh.org.

Funding Policy – Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, 0 percent of covered payroll was allocated to post-employment health care for the years ended June 30, 2017 and 2016. The 14 percent employer contribution rate is the maximum rate established under Ohio law.

**Southern State Community College
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*Notes to the Basic Financial Statements
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Note 8 - Other Postemployment Benefits – GASB 45 (Continued)

The College's contributions for health care for the fiscal years ended June 30, 2017 and 2016 were \$0 and \$0.

Note 9 - Compensated Absences

College faculty and support staff accrue vacation benefits; however, vacation carryover balances are limited to a maximum of 60 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 43 days.

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 \$140,164 and \$204,165 as of June 30, 2018 and 2017, respectively.

Note 10 – Long-Term Liabilities

During fiscal year ended June 30, 2008, the College issued General Receipts Bonds, Series 2008. During fiscal year ended June 30, 2012, the College issued General Receipts Bonds, Series 2011 and Series 2012. The following summarizes bonds payable as of June 30, 2018:

Bonds	Interest Ranging From	Due Serially Through	Balance 6/30/17	Additions	Deletions	Balance 6/30/18	Current Portion
Series 2008	3.5-5.05%	2025	\$1,965,000	\$0	(\$125,000)	\$1,840,000	\$130,000
Series 2011	2.0-4.0%	2031	8,645,000	0	(470,000)	8,175,000	480,000
Series 2012	2.0-3.6%	2031	4,915,000	0	(380,000)	4,535,000	390,000
Total Bonds			15,525,000	0	(975,000)	14,550,000	1,000,000
Net Pension Liability:							
OPERS			6,301,780	0	(2,122,010)	4,179,770	0
STRS			15,744,959	0	(4,694,195)	11,050,764	0
Total NPL			22,046,739	0	(6,816,205)	15,023,534	0
Net OPEB Liability:							
OPERS			2,883,647	216,673	0	3,100,320	0
STRS			2,487,865	0	(672,853)	1,815,012	0
Total OPEB			5,371,512	216,673	(672,852)	4,915,332	0
Total Long-Term Liabilities			\$42,943,251	216,673	(8,464,058)	\$34,695,866	\$1,000,000

Southern State Community College
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Note 10 - Long-Term Liabilities (Continued)

The following summarizes bonds payable as of June 30, 2017:

Bonds	Interest Ranging From	Due Serially Through	Balance 6/30/16	Additions	Deletions	Balance 6/30/17	Current Portion
Series 2008	3.5-5.05%	2025	\$2,085,000	\$0	(\$120,000)	\$1,965,000	\$125,000
Series 2011	2.0-4.0%	2031	9,105,000	0	(460,000)	8,645,000	470,000
Series 2012	2.0-3.6%	2031	5,290,000	0	(375,000)	4,915,000	380,000
Total Bonds			16,480,000	0	(955,000)	15,525,000	975,000
Net Pension Liability:							
OPERS			5,367,859	933,921	0	6,301,780	0
STRS			15,197,727	547,232	0	15,744,959	0
Total NPL			20,565,586	1,481,153	0	22,046,739	0
Total Long-Term Liabilities			\$37,045,586	\$1,481,153	(\$955,000)	\$37,571,739	\$975,000

Principal and interest amounts due within each of the next five years and thereafter on obligations outstanding at June 30, 2018, are as follows:

Year Ended June 30,	Series 2008		Series 2011		Series 2012	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$130,000	\$88,160	\$480,000	\$273,233	\$390,000	\$126,333
2020	140,000	82,310	490,000	262,433	395,000	118,176
2021	145,000	76,010	500,000	250,183	405,000	109,070
2022	150,000	69,485	515,000	235,183	420,000	98,750
2023	155,000	62,435	530,000	219,733	430,000	87,378
2024-2028	910,000	191,963	2,925,000	839,898	1,295,000	313,276
2029-2032	210,000	10,500	2,735,000	274,035	1,200,000	86,798
Total	\$1,840,000	\$580,863	\$8,175,000	\$2,354,697	\$4,535,000	\$939,781

In 2012, the College issued Series 2012 bonds, a portion of which was used to advance refund \$1,690,000 of the Series 2003 bonds, resulting in an economic gain of \$224,905. The refunded bonds portion of this bond issuance was placed in an escrow account to repay the bonds when callable on December 1, 2013. As a result, this portion of the Series 2003 bonds is considered defeased. As such, the assets and related liability for these bonds are not included in the College's financial statements. As of June 30, 2016, all of the refunded bonds were repaid.

Southern State Community College
Highland County
Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2018 and 2017

Note 10 - Long-Term Liabilities (Continued)

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

	<u>Series 2008</u>
2020	\$145,000
2021	150,000
2022	155,000
2023	165,000
2024	175,000
2025	180,000
2026	190,000
2027	200,000
2028	<u>210,000</u>
	<u>\$1,570,000</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 \$18,425,341. Principal and interest paid for the current year and total general revenues were \$1,476,042 and \$6,396,119, respectively.

The College pays obligations related to employee compensation from the program benefitting from their service.

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.

Note 12 - Change in Accounting Principles/Restatement of Beginning Balances

For fiscal year 2018, the College implemented Governmental Accounting Standards Board (GASB) Statement No. 85, *Omnibus 2017*, Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, and related guidance from (GASB) Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*.

GASB 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). These changes were incorporated in the College's fiscal year 2018 financial statements; however, there was no effect on beginning net position.

**Southern State Community College
Highland County**
*Notes to the Basic Financial Statements
For the Fiscal Years Ended June 30, 2018 and 2017*

Note 12 – Change in Accounting Principle/Restatement of Beginning Balances (Continued)

GASB 75 established standards for measuring and recognizing postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported July 1, 2017:

	<u>College</u>
Net Position, As Reported, June 30, 2017	\$92,864
Adjustments:	
Net OPEB Liability	(5,371,512)
Net Position, As Restated, July 1, 2017	(\$5,278,648)

The College made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

The College opted not to restate its comparative financial statements in accordance with GASB Statements No. 75. As such, the College presents OPEB plan disclosures in accordance with GASB Statement No. 45 for the prior year in addition to disclosures in accordance with GASB Statement No. 75 for fiscal year 2018.

In addition, the College opted to restate beginning balance to correct previously reported common stock investment balances by reporting it at its current market value. This correction had the following effect on net position as reported June 30, 2017:

	<u>Foundation</u>
Net Position, As Reported, June 30, 2017	\$2,463,235
Adjustments:	
Adjustment to market value	63,180
Net Position, As Restated, June 30, 2017	\$2,526,415

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

	2013	2014	2015	2016	2017
<i>State Teachers Retirement System</i>					
College's proportion of the net pension liability (asset)	0.05919894%	0.05919894%	0.05499036%	0.04703777%	0.04651932%
College's proportionate share of the net pension liability (asset)	\$17,152,271	\$14,399,231	\$15,197,727	\$15,744,959	\$11,050,764
College's covered-employee payroll	\$6,179,593	\$5,972,200	\$5,671,321	\$4,949,279	\$5,298,143
College's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	277.6%	241.1%	268.0%	318.1%	208.6%
Plan fiduciary net position as a percentage of the total pension liability	69.3%	74.7%	72.1%	66.8%	75.3%
<i>Ohio Public Employees Retirement System</i>					
College's proportion of the net pension liability (asset)	0.04073468%	0.04073468%	0.03099000%	0.02775100%	0.02664300%
College's proportionate share of the net pension liability (asset)	\$4,802,088	\$4,913,057	\$5,367,859	\$6,301,780	\$4,179,770
College's covered-employee payroll	\$4,427,764	\$4,307,114	\$4,294,814	\$4,139,575	\$3,622,942
College's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	108.5%	114.1%	125.0%	152.2%	115.4%
Plan fiduciary net position as a percentage of the total pension liability	86.4%	86.5%	81.2%	77.3%	84.7%

The amounts presented for each fiscal year were determined as of the College's measurement date, which is June 30 for STRS and December 31 for OPERS.

(1) Information not available prior to 2013.

Southern State Community College
Required Supplementary Information
Schedule of the College's Proportionate Share of the Net OPEB Liability
Last Two Fiscal Years (1)

	2016	2017
<i>State Teachers Retirement System</i>		
College's proportion of the net OPEB liability (asset)	0.04703777%	0.04651932%
College's proportionate share of the net OPEB liability (asset)	\$2,487,865	\$1,815,012
College's covered-employee payroll	\$4,949,279	\$5,298,143
College's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	50.3%	34.3%
Plan fiduciary net position as a percentage of the total OPEB liability	37.3%	47.1%
 <i>Ohio Public Employees Retirement System</i>		
College's proportion of the net OPEB liability (asset)	0.03001170%	0.02855000%
College's proportionate share of the net OPEB liability (asset)	\$2,883,647	\$3,100,320
College's covered-employee payroll	\$4,139,575	\$3,622,942
College's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	69.7%	85.6%
Plan fiduciary net position as a percentage of the total OPEB liability	54.0%	54.1%

The amounts presented for each fiscal year were determined as of the College's measurement date, which is June

(1) Information not available prior to 2016.

Southern State Community College
Required Supplementary Information
Schedule of College Contributions
Last Ten Fiscal Years

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<i>State Teachers Retirement System</i>										
<u>Pension Contributions</u>										
Contractually required contribution	\$713,918	\$805,212	\$818,323	\$811,098	\$803,347	\$776,386	\$793,985	\$692,899	\$741,740	\$708,003
Contributions in relation to the contractually required contribution	713,918	805,212	818,323	811,098	803,347	776,386	793,985	692,899	741,740	708,003
Contribution deficiency (excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
College's covered-employee payroll	\$5,491,679	\$6,193,936	\$6,294,793	\$6,239,214	\$6,179,593	\$5,972,200	\$5,671,321	\$4,949,279	\$5,298,143	\$5,057,164
Contributions as a percentage of covered-employee payroll	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	14.00%	14.00%	14.00%	14.00%
<u>OPEB Contributions</u>										
Contractually required contribution	\$54,917	\$61,939	\$62,948	\$62,392	\$61,796	\$59,722	\$0	\$0	\$0	\$0
Contributions in relation to the contractually required contribution	54,917	61,939	62,948	62,392	61,796	59,722	0	0	0	0
Contribution deficiency (excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
College's covered-employee payroll	\$5,491,679	\$6,193,936	\$6,294,793	\$6,239,214	\$6,179,593	\$5,972,200	\$5,671,321	\$4,949,279	\$5,298,143	\$5,057,164
Contributions as a percentage of covered-employee payroll	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	0.00%	0.00%	0.00%	0.00%
<i>Ohio Public Employees Retirement System</i>										
<u>Pension Contributions</u>										
Contractually required contribution	\$251,933	\$310,192	\$387,173	\$457,982	\$442,776	\$559,925	\$515,378	\$496,749	\$434,753	\$548,952
Contributions in relation to the contractually required contribution	251,933	310,192	387,173	457,982	442,776	559,925	515,378	496,749	434,753	548,952
Contribution deficiency (excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
College's covered-employee payroll	\$3,599,043	\$3,817,750	\$4,301,921	\$4,579,821	\$4,427,764	\$4,307,114	\$4,294,814	\$4,139,575	\$3,622,942	\$4,066,903
Contributions as a percentage of covered-employee payroll	7.00%	8.13%	9.00%	10.00%	10.00%	13.00%	12.00%	12.00%	12.00%	13.00%
<u>OPEB Contributions</u>										
Contractually required contribution	\$251,933	\$224,293	\$215,096	\$183,193	\$177,110	\$43,071	\$85,896	\$82,792	\$72,459	\$20,414
Contributions in relation to the contractually required contribution	251,933	224,293	215,096	183,193	177,110	43,071	85,896	82,792	72,459	20,414
Contribution deficiency (excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
College's covered-employee payroll	\$3,599,043	\$3,817,750	\$4,301,921	\$4,579,821	\$4,427,764	\$4,307,114	\$4,294,814	\$4,139,575	\$3,622,942	\$4,066,903
Contributions as a percentage of covered-employee payroll	7.00%	5.88%	5.00%	4.00%	4.00%	1.00%	2.00%	2.00%	2.00%	1.00%

State Teachers Retirement System

Pension

Changes in benefit terms

For fiscal year 2018, the cost of living adjustment (COLA) was reduced to 0 percent effective July 1, 2017.

Changes in assumptions

For fiscal year 2018, the following were the most significant changes of assumptions that affected the total pension liability since the prior measurement date:

- Inflation assumptions were lowered from 2.75 percent to 2.50 percent.
- Investment return assumptions were lowered from 7.75 percent to 7.45 percent.
- Total salary increases rates were lowered by decreasing merit component of the individual salary increases, as well as by 0.25 percent due to lower inflation.
- Payroll growth assumptions were lowered to 3.00 percent.
- Updated the health and disability mortality assumption to the RP-2014 mortality tables with generational improvement scale MP-2016.
- Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

OPEB

Changes in benefit terms

For fiscal year 2018, STRS has the following changes in benefit terms since the previous measurement date:

- The HealthSpan HMO plans were eliminated.
- The subsidy multiplier for non-Medicare benefit recipients was reduced to 1.9 percent per year of service from 2.1 percent.
- Medicare Part B premium reimbursements were discontinued for survivors and beneficiaries who were age 65 by 2008 and either receiving a benefit or named as a beneficiary as of January 1, 2008.
- The remaining Medicare Part B premium reimbursements will be phased out over a three-year period.

Changes in assumptions

For fiscal year 2018, the following were the most significant changes of assumptions that affected the total OPEB liability since the prior measurement date:

- The discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB 74.
- The long-term rate of return was reduced to 7.45 percent.
- Valuation-year per capita health costs were updated.
- The percentage of future retirees electing each option was updated based on current data.
- The assumed future trend rates were modified.
- Decrement rates including mortality, disability, retirement, and withdrawal were modified.
- The assumed percentage of future disabled retirees assumed to elect health coverage was decreased from 84 percent to 65 percent, and the assumed percentage of terminated vested participants assumed to elect health coverage at retirement was decreased from 47 percent to 30 percent.
- The assumed salary scale was modified.

Ohio Public Employees Retirement System

Pension

Changes in benefit terms

There were no changes in benefit terms since the prior measurement date.

Changes in assumptions

There were no changes in assumptions since the prior measurement date.

OPEB

Changes in benefit terms

There were no changes in benefit terms since the prior measurement date.

Changes in assumptions

There were no changes in assumptions since the prior measurement date.

Southern State Community College
Highland County
Schedule of Federal Awards Expenditures
For the Fiscal Year Ended June 30, 2018

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	\$104,062
Federal Direct Student Loans	N	84.268	3,433,105
Federal Work-Study Program	N	84.033	44,832
Federal Pell Grant Program	N	84.063	<u>3,775,830</u>
Total Student Financial Aid Cluster			7,357,829
<i>Passed through the Ohio Department of Education</i>			
Career and Technical Education - Basic Grants to States	3L90	84.048	69,137
Adult Education - Basic Grants to States	N/A	84.002	<u>226,469</u>
Total United States Department of Education			<u>7,653,435</u>
Total Federal Financial Assistance			<u>\$7,653,435</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, 2018

Note 1 – Basis of Presentation

The accompanying schedule of federal awards expenditures (the schedule) is a summary of the activity of the College's federal award programs. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the College, it is not intended to and does not present the financial position, changes in net position, or cash flows of the College.

Note 2 – Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The College has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3 – 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, 2018. The College is a direct lender for these loan funds; however, they are not responsible for collecting these loans in future periods.

Note 4 – 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, 2018, the College had no significant commodities in inventory.

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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of Southern State Community College, Highland County, (the College) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon dated October 12, 2018, wherein we noted the College adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" and restated beginning net position as a result of this implementation.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Natalie Millhuff-Stang, CPA, CITP
President/Owner
Millhuff-Stang, CPA, Inc.
Portsmouth, Ohio

October 12, 2018

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

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited Southern State Community College's, Highland County (the College) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the College's major federal program for the year ended June 30, 2018. The College's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the College's major federal program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

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

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

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



Natalie Millhuff-Stang, CPA, CITP
President/Owner
Millhuff-Stang, CPA, Inc.
Portsmouth, Ohio

October 12, 2018

**Southern State Community College
Highland County**
*Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2018*

Section I – Summary of Auditor’s Results

<i>Financial Statements</i>	
Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	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?	None reported
Type of auditor’s report issued on compliance for major programs:	Unmodified
Any auditing findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
Identification of major federal 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)
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
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 20, 2018**