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

Financial Report

with Additional Information

June 30, 2005 and 2004

Auditor of State
Betty Montgomery

Board of Trustees
Owens State Community College
PO Box 10000
Toledo, Ohio 43699-1947

We have reviewed the *Independent Auditor's Report* of the Owens State Community College, Wood County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2004 to June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

November 18, 2005

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Independent Auditor's Report

Board of Trustees
Owens State Community College

We have audited the accompanying statement of net assets of Owens State Community College and its discretely presented component unit as of June 30, 2005 and 2004 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Owens State Community College and its discretely presented component unit as of June 30, 2005 and 2004, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2005 on our consideration of Owens State Community College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Board of Trustees
Owens State Community College

The Management's Discussion and Analysis presented on pages 3 through 14 is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

September 15, 2005

The management discussion and analysis (MDA) of Owens State Community College's (the College) financial statements provide an overview of the College's operations for the fiscal years ended June 30, 2005 and 2004. Management has prepared this analysis, as well as the underlying financial statements and footnote disclosures, and is responsible for the completeness and fairness of the information.

Using This Annual Report

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

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

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

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

Financial Highlights

The net assets by category for fiscal years 2005 and 2004 are shown below. In the aggregate, the net assets increased by $7.8 million from fiscal year 2004.

	Net Assets			
	Invested in Capital Assets	Restricted (for loans)	Unrestricted	Total Net Assets
FY 2005	$ 69,204,918	$ 106,676	$ 18,840,545	$ 88,152,139
FY 2004	$ 60,643,572	$ 106,676	$ 19,587,074	$ 80,337,322

Beginning with fiscal year 2002, and in compliance with GASB 34, depreciation was calculated. Also beginning with fiscal year 2002, only items greater than $5,000 were capitalized.

A summarization of the College's assets, liabilities, and net assets at June 30, 2005 and 2004 follows:

	2005	2004
Assets:		
Current assets	$ 41,769,474	$ 42,616,024
Capital assets	69,954,071	60,643,572
Notes receivable	791,888	686,927
Total assets	112,515,433	103,946,523
Liabilities:		
Current liabilities	21,678,379	21,597,798
Noncurrent liabilities	2,684,915	2,011,403
Total liabilities	24,363,294	23,609,201
Net assets:		
Invested in capital assets	69,204,918	60,643,572
Restricted	106,676	106,676
Unrestricted	18,840,545	19,587,074
Total net assets	$ 88,152,139	$ 80,337,322

As further discussed in the Capital Assets section of this document, capital assets increased primarily due to the construction of a new campus in Findlay, Ohio. Construction progress is also being made on the Center for Emergency Preparedness.

Current and noncurrent liabilities increased due to debt being incurred for the purchase of a new phone system in fiscal year 2005.

A summarization of the College's revenues, expenses, and changes in net assets for the years ended June 30, 2005, and 2004 follows:

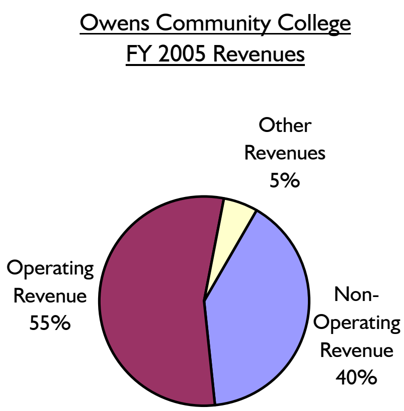
	2005	2004
Operating revenues:		
Student tuition and fees	$ 19,424,306	$ 18,905,773
Grants – federal, state, local	23,215,635	21,102,132
Sales and service	213,933	185,444
Auxiliary activities	7,870,471	6,917,645
Other operating revenues	570,688	644,218
Total operating revenues	51,295,033	47,755,212
Operating expenses:		
Educational and general	75,576,738	71,775,020
Depreciation	3,496,847	3,314,325
Auxiliary enterprises	6,621,092	6,548,797
Total operating expenses	85,694,677	81,638,142
Operating loss	(34,399,644)	(33,882,930)
Nonoperating revenues:		
State appropriations	36,743,493	32,246,983
Other nonoperating revenues and expenses	535,022	303,645
Total nonoperating revenues	37,278,515	32,550,628
Income (loss) before other revenues, expenses	2,878,871	(1,332,302)
Capital appropriations and grants	4,935,946	7,989,594
Increase in net assets	7,814,817	6,657,292
Net assets:		
Beginning of year	80,337,322	73,680,030
End of year	$ 88,152,139	$ 80,337,322

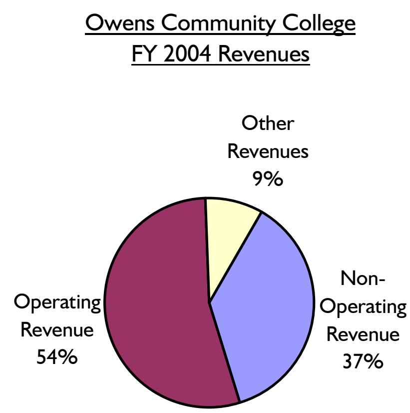
Statement of Revenues, Expenses, and Changes in Net Assets

The College converted from a technical college to a state community college in 1994. Since that date, enrollment has increased by 123.5% and the FTE (full-time equivalent) increased by 135.2%. For the Fall Semester 2005, the headcount of 20,406 represented a 1.21% increase while for the Fall Semester 2004, the headcount of 20,160 represented a 2.8% increase. The FTE's for Fall 2005 and Fall 2004 were 5,833 and 5,634, respectively, and represented increases of 3.4% and 4.7%, respectively.

The College's two major sources of revenue are: tuition and fees – operating revenue; and the State share of instruction – nonoperating revenue. Both types of revenue are tied to enrollment, with tuition and fees being generated via an assessment mechanism, which focuses on individual credit hours of enrollment. In contrast, the State share of instruction is calculated using a methodology that aggregates credit hours from similar programs into categories referred to as general, technical, baccalaureate, masters and professional, doctoral and medical. Each of these groupings is then assigned a value based on historical cost. This value, less an assumed charge for the College's tuition and fees, provides a net value, which is then factored by the College's FTE (full-time equivalent) students in that program (Hours/30) to arrive at the monies due the College for the State share of instruction.

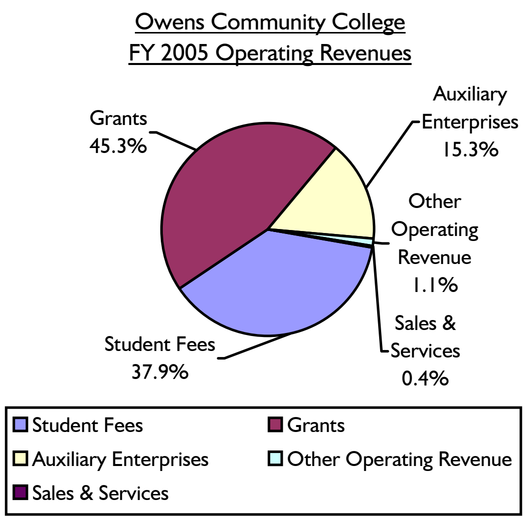
The chart sets forth below present total revenues by category for the fiscal years ended June 30, 2005 and 2004.

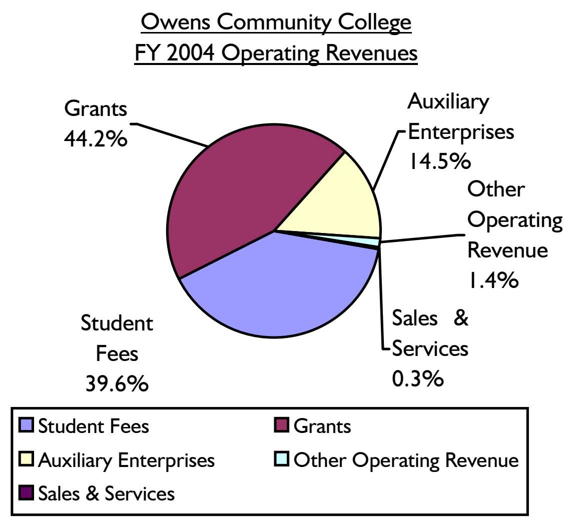




Operating Revenue

The chart set forth below reflects the College's operating revenue for the fiscal years ended June 30, 2005 and 2004.





While the College's enrollment increased and the tuition and fees increased, the financial aid discount increased substantially, resulting in an increase in grants. The College fee that students were assessed on a per credit hour basis for Summer 2003 (fiscal year 2004), was $100.75. Effective for summer, 2004 (fiscal year 2005), the per credit hour fee was increased to $110 reflecting a $6.00 per credit hour increase in the instructional fee and a $3.25 per credit hour increase in the general fee. The general fee provides for non instructional services such as student activities, library privileges and technology. Presently the College has allocated a portion of the general fees for technology initiatives. Effective for summer, 2005 (fiscal year 2006), the per credit hour fee was increased to $116 reflecting a $6.00 per credit hour increase in the instructional fee only.

The recent increases in tuition were due to the fact that the State of Ohio slightly increased the College's share of instruction by 3.3% during the last four fiscal years. During this same time period, the College grew by 36.1% in FTE. The board of trustees and administration were jointly concerned as to the potential negative impact that faced the budget without the increase in tuition. It is to be noted that although the College raised its fees by 15%, the College offers the lowest tuition rate per hour than other Toledo-area colleges.

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

Nonoperating Revenue

The College's largest single source of revenue is the nonoperating revenue received from the State of Ohio. The College's State share of instruction and access challenge funds amounted to $36,743,493 and $32,246,983 in fiscal years 2005 and 2004, respectively. The amount allocated for fiscal year 2006 is $38,392,171.

Another component of nonoperating revenue is investment income. Interest rates have increased due to the change in investments in late 2004 and 2005. The amount of interest has almost doubled in 2005 from 2004. During this period the cash position of the College has lessened.

Operating Expense Changes

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

The depreciation expense for fiscal years 2005 and 2004, respectively, was $3,496,847 and $3,314,425.

Capital Assets

At June 30, 2005 and 2004, respectively, the College had $69,954,071 and $60,643,572 invested in capital assets.

The details of the capital assets at June 30, 2005 and 2004, respectively, are shown below.

	2005	2004
Land and land improvements	$ 12,874,731	$ 11,372,839
Buildings	71,735,667	71,479,569
Equipment	18,039,728	15,934,943
Less accumulated depreciation	(50,458,211)	(46,862,013)
Net of depreciation	52,191,915	51,925,338
Construction in progress	17,762,156	8,718,234
Totals	$ 69,954,071	$ 60,643,572

Debt associated with capital assets is of a trade payable nature and notes payable for the purchase of a new telephone system in 2005. The outstanding balance for FY2005 is $749,152 (of which $579,289 is long term).

Several capital projects have progressed through fiscal year 2005. One of the major ongoing projects was the construction of the new Findlay Campus, which began in November 2003. The original project budget was $17,746,360. Since the start of the project, $15,056,396 has been expended in total, of which $6,411,911 was expended in fiscal year 2005. It is still the intention of the College to open this facility with the 2005 Fall Semester classes.

Another ongoing project for the Findlay Campus is the construction of the 3,000 square foot Child Care Center. This facility, which has been designed as an industrial unit, will be pre-manufactured and placed on site with a scheduled opening date of Spring Semester, 2006. This project was originally supported by state funding in the amount of $250,600. For the fiscal year 2005, $34,902 has been expended primarily for design and architectural fees.

The preliminary design phase and ongoing site preparation for the new Findlay Maintenance and Security Building also took place during fiscal year 2005. The overall budget for this building was projected at $400,000. This building will be comprised of three sections, all of which will be typical pole building construction with pole framing, wood trusses, steel siding, and steel roof sheeting. The center section will be the largest area covering approximately 5,184 square feet with sixteen-foot sidewalls. This section will be used primarily for storage and as a workshop area. The east section, which is approximately 1,650 square feet in area, will be used as a security station and will be comprised of offices, restrooms, and locker rooms. The west section will be used as a maintenance office and entails basically the same layout and area as the East section.

On the Toledo Campus, the construction of the Center for Emergency Preparedness, formerly known as the Fire and Police Training Center for Homeland Security continues. The construction of this 110-acre training site is to provide full-size training props for first responders to practice rescue and recovery maneuvers in a controlled environment. Construction originated in October of 2004 with the implementation of several phases to be coordinated over the next five years.

The Phase I portion of this project, which included general land improvements along with the installation of the basic infrastructure, was budgeted at $3,384,000. During the fiscal year 2005, $2,029,486 of these funds were expended. This phase is expected to be completed in the Fall of 2005.

Phase II construction of the Center for Emergency Preparedness has begun and will continue into fiscal year 2006 with the installation of several prop items to be used for training purposes. These are to include an (inactive) gas station donated by Speedway Super America LLC, a car burn/extrication prop, a burn building with a five story fire tower, a liquid propane tank to supply gas for the fire trainers, a tanker truck fire trainer, a propane tank fire trainer, a mobile flashover container prop, and a railroad tank-car fire trainer.

Another capital project that was initiated in fiscal year 2005 was the renovations of the Fountain View Dining Hall, College Hall building. This facility/cafeteria, which has now been renamed the Fireside Grill, totals approximately 8,043 square feet and is comprised of a kitchen, a food prep area, a service area, and three seating areas. It was originally constructed in 1984 and serves about 80 percent of our student population. During the renovation project, the kitchen and food prep areas were completely redone including electrical, plumbing, grease trap installation, and space reconfiguration for efficient flow and function. The service area and seated dining area were renovated to include lighting, ceiling tiles, window treatments, and flooring layouts to accommodate self-serve bars and "grazing" stations. Separate dining areas were constructed to modernize and segment various locations, each deriving its own theme and levels of comfort. Auxiliary Services funds were used for construction expenses along with the purchase of new kitchen appliances and furniture. Capital expenses for fiscal year 2005 totaled $511,527. Completion of this project is expected with the start of Fall Semester classes in 2005.

Future Capital Endeavors

FY 2007-2008 Capital Biennium

Penta Career Center Property Acquisition

The scope of this project is to formally purchase the leased 27 acres of land forming the original Owens campus site, which will finally complete the legal separation between the vocational high school and the College that was initiated in 1966. This property purchase will expand the campus boundaries with the acquisition of the neighboring 28-acre Penta Career Center property and educational facilities totaling 309,629 gross square feet. It would be desirable to have an executed land purchase agreement by February 2007, to award construction contracts for cosmetic renovations to the facilities by October 2008, and to be fully operational for the Fall Semester classes beginning August 2009.

TABLE 1	REQUEST #250
Campus Expansion – Penta Property Acquisition	
State Funding Requested	**$12,000,000**
Local Funds Estimated	**$575,000**
Total Project Budget Estimate	**$12,575,000**
Property Purchase	**55 Acres**
Educational Facilities	**309,629 SF**

Penta Facilities Renovations

The scope of this project is to provide cosmetic renovations to appropriate areas within the Penta complex including the high school building, skill center, library, administration building, auto body and welding facility, greenhouse, butler and storage buildings, and parking lots, drives and walks, in order to be opened for the Fall Semester, 2009. The creation of 309,629 gross square feet of additional space will allow the College to eliminate the use of two buildings. The College would sell the Center for Development and Training, 53,652 gross square feet, (6.46 acres) which is located in Northwood, about 2 miles away from campus. The Center for Development and Training administrative offices, continuing education classrooms, and laboratories would be relocated to the renovated Penta facilities. If recommended in the feasibility study, the College would also raze the Alumni Hall building, 31,500 square feet, a Butler-type structure that was built in 1975, in order to construct the proposed 3-story parking garage on its site. Alumni Hall was formerly used for student activities and athletics until 2000, when the Student Health and Activities Center was completed. Alumni Hall has primarily become a storage facility and a portion of it is used for departmental offices housing Security, Disability Services, and Procurement. These departmental offices would be relocated to other areas on campus.

TABLE 2	REQUEST #263
Penta Facilities Renovations	
State Funding Requested	$3,000,000
Local Funds Estimated	$1,545,252
Total Project Budget Estimate	$4,545,252
Addition of Space	309,629 GSF
Reduction of Space	(85,152 GSF)
Net Space Adjustment	224,477 GSF

Center for Emergency Preparedness, Phase III and IV

Phase III calls for local funding of a 40,000 square foot, pre-engineered, maintenance/storage facility and a 15,000 square foot, pre-engineered, emergency operations communication center.

The scope of the Phase IV project is to renovate the maintenance/storage facility and emergency operations center with the addition of classrooms, locker rooms, offices, and a high-bay training area for fire truck hook and ladder exercises with an interior three story mock-up building. The facility will also provide a secured area for safety vehicles and equipment.

TABLE 3	REQUEST #264
Center for Emergency Preparedness, Phase IV	
State Funding Requested	$2,000,000
Local Funds Estimated	$798,500
Total Project Budget Estimate	$2,798,500
Addition of Space	55,000 GSF

Cash Flows

Information on the cash flows of the College for the years ended June 30, 2005 and 2004 follows:

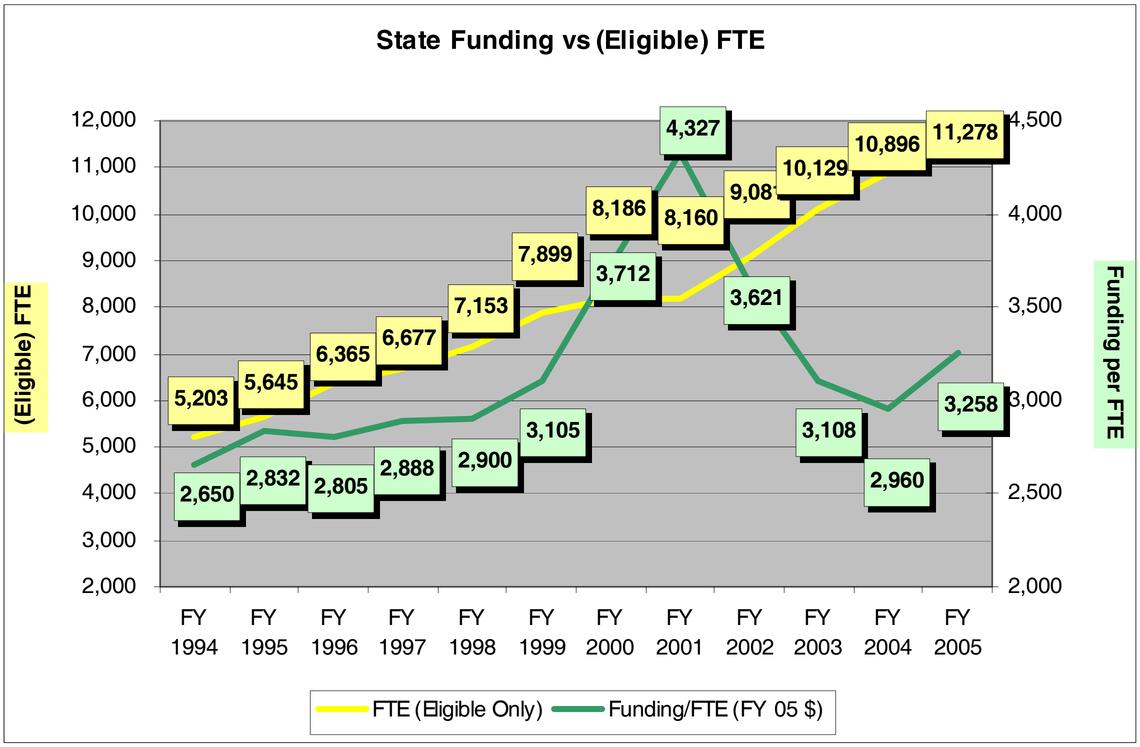
	Year Ended June 30	
	2005	2004
Cash Flows from Operating Activities		
Student tuition and fees	$ 20,437,859	$ 16,916,450
Grants – federal, state, local	24,237,788	18,326,232
Payments to employees, suppliers, students, and others	(83,678,162)	(75,538,201)
Auxiliary enterprises	7,879,999	6,920,682
Sales and services	213,933	185,443
Student loans granted, net of loans collected	-	-
Other receipts	680,766	1,092,881
Net cash used in operating activities	(30,227,817)	(32,096,513)
Cash Flows from Noncapital Financing Activities		
State appropriations	36,743,493	32,246,983
Cash Flows from Capital and Related Financing Activities		
Proceeds from notes payable	896,319	-
Principal payments on notes payable	(147,167)	-
Capital appropriations and grants	5,958,099	6,649,186
Purchases of capital assets	(12,807,346)	(10,614,262)
Net cash used in capital and related financing activities	(6,100,095)	(3,965,076)
Cash Flows from Investing Activities		
Interest on investments	535,022	285,641
Purchase of investments	(6,261,093)	(9,350,532)
Proceeds from sale and maturity of investments	4,480,811	3,579,585
Net cash used in investing activities	(1,245,260)	(5,485,306)
Net decrease in cash	(829,679)	(9,299,912)
Cash – Beginning of year	11,815,264	21,115,176
Cash – End of year	**$ 10,985,585**	**$ 11,815,264**

	Year Ended June 30	
	2005	2004
Reconciliation of net operating revenues (expenses) to net cash from operating activities:		
Operating loss	$ (34,399,644)	$ (33,882,930)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	3,496,847	3,314,325
Changes in assets and liabilities:		
Receivables, net	503,318	(4,265,705)
Inventories	51,090	(21,016)
Prepaid expenses and deferred charges	239,114	(1,668,952)
Notes receivable, net	(123,482)	31,000
Accounts payable	(709,835)	1,791,391
Salaries, wages, and benefits payable	738,367	930,092
Deferred revenue	326,807	1,409,963
Federal and non-federal student loans payable	20,641	(71,600)
Deposits held for others	(371,040)	336,919
Net cash used in operating activities	**$ (30,227,817)**	**$ (32,096,513)**

Cash used in operating activities was lower this year partly due to higher receivables in relation to payables, thus diminishing the cash inflow. State appropriations were higher this year thus adding to the cash flow. Cash was invested in governmental agencies thus lowering the cash flow for the short term. In the long run, more flow will result from higher investment rates. The College has been involved in the building of the Findlay Campus that used cash to create capital assets. The College had a loss of cash position but the overall net assets of the College are higher.

Factors Affecting the Future

The going trend for community colleges over the last several years has been to reduce expenditures and operate in a very lean environment. A strong desire not to raise tuition in conjunction with receiving a relatively stable state subsidy has led to increased concerns regarding long term funding and future operations. Owens Community College has seen significant growth in both student enrollment and the associated FTE's. In order to properly service this growth, additional funding is required to sustain the level of service that is expected. Since 1994, enrollment has increased 123.5% and the corresponding FTE's have increased by 135.2%. With this exceptional growth, the need for state support to increase in unison becomes even more critical. As shown below, the College's peak period of state funding occurred in fiscal years 2000 and 2001 when the state incorporated additional subsidies through the Access Challenge program. Since that time, however, the funding has greatly diminished in conjunction with the increase in FTE's and overall enrollment.



To help alleviate this dramatic margin, the College has instituted increases in fees following state guidelines and caps. There has also been to our advantage an increase in interest rates allowing more lucrative investments and planning opportunities. Grants and other restricted sources of revenue have been actively pursued and sometimes successfully awarded. This in essence indicates the College's strong desire to seek alternative funding and not remain static in pursuing other options. Even so, if the state funding formula does not continue to support colleges of growth and recognize the need to maintain an accurate method of projecting subsidies, then colleges will continue to face economic difficulties in years to come.

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

Statement of Net Assets

	June 30	
	2005	2004
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	$ 10,985,585	$ 11,815,264
Investments (Note 2)	7,530,131	5,749,849
Accounts receivable, net (Note 3)	19,747,935	21,288,285
Receivable from Foundation	45,154	30,275
Prepaid expenses and deferred charges	2,295,451	2,598,486
Deposits	85,925	22,005
Inventories	939,548	990,638
Student loans receivable, net	139,745	121,222
Total current assets	41,769,474	42,616,024
Noncurrent Assets		
Capital assets, net (Note 10)	69,954,071	60,643,572
Student loans receivable, net (Note 4)	791,888	686,927
Total noncurrent assets	70,745,959	61,330,499
Total assets	**$ 112,515,433**	**$ 103,946,523**
Liabilities and Net Assets		
Liabilities		
Current liabilities:		
Accounts payable (Note 5)	$ 2,395,752	$ 3,105,587
Notes payable (Note 13)	169,864	-
Salaries, wages and fringe benefits payable	4,830,214	4,165,429
Deferred revenue	14,177,825	13,851,018
Deposits held for others	104,724	475,764
Total current liabilities	21,678,379	21,597,798
Noncurrent Liabilities		
Benefits payable (Note 13)	1,225,520	1,151,937
Notes payable (Note 13)	579,288	-
Federal student loans (Note 13)	732,783	712,142
Non-federal student loans (Note 13)	147,324	147,324
Total noncurrent liabilities	2,684,915	2,011,403
Total liabilities	24,363,294	23,609,201
Net Assets		
Invested in capital assets	69,204,918	60,643,572
Restricted for expendable assets (Note 14)	106,676	106,676
Unrestricted (Note 14)	18,840,545	19,587,074
Total net assets	88,152,139	80,337,322
Total liabilities and net assets	**$ 112,515,433**	**$ 103,946,523**

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

Statement of Revenues, Expenses and Changes in Net Assets

	Year Ended June 30	
	2005	2004
Revenues		
Operating Revenues:		
Student tuition and fees - net of scholarship allowances of $19,107,449 (2005); $16,006,908 (2004)	$ 19,424,306	$ 18,905,773
Grants - Federal, State, Local	23,215,635	21,102,132
Sales and services	213,933	185,444
Auxiliary enterprises - net of scholarship allowances of $382,937 (2005); $334,230 (2004)	7,870,471	6,917,645
Other operating revenues	570,688	644,218
Total operating revenues	51,295,033	47,755,212
Operating Expenses		
Educational and General:		
Instructional and departmental research	38,197,097	35,991,974
Institutional research	186,255	223,447
Public service	2,179,889	2,264,900
Academic support	3,805,706	3,144,249
Student services	6,301,234	5,970,787
Institutional support	11,802,358	11,659,870
Operation and maintenance of plant	10,134,172	8,160,054
Scholarships and other student aid	2,970,027	4,359,739
Depreciation	3,496,847	3,314,325
Auxiliary enterprises - net of scholarship allowances	6,621,092	6,548,797
Total operating expenses	85,694,677	81,638,142
Operating loss	(34,399,644)	(33,882,930)
Nonoperating Revenues		
State appropriations	36,743,493	32,246,983
Investment income	535,022	303,645
Net nonoperating revenues	37,278,515	32,550,628
Income (loss) before other revenues, expenses, gains, or losses	2,878,871	(1,332,302)
Capital appropriations	4,901,946	7,989,594
Capital grants	34,000	-
Total other revenues	4,935,946	7,989,594
Increase in net assets	7,814,817	6,657,292
Net Assets		
Beginning of year	80,337,322	73,680,030
End of year	**$ 88,152,139**	**$ 80,337,322**

See Notes to Financial Statements.

Statement of Cash Flows

	Year Ended June 30	
	2005	2004
Cash Flows from Operating Activities		
Student tuition and fees	$ 20,437,859	$ 16,916,450
Grants – federal, state, local	24,237,788	18,326,232
Payments to employees, suppliers, students, and others	(83,678,162)	(75,538,201)
Auxiliary enterprises	7,879,999	6,920,682
Sales and services	213,933	185,443
Student loans granted, net of loans collected	-	-
Other receipts	680,766	1,092,881
Net cash used in operating activities	(30,227,817)	(32,096,513)
Cash Flows from Noncapital Financing Activities		
State appropriations	36,743,493	32,246,983
Cash Flows from Capital and Related Financing Activities		
Proceeds from notes payable	896,319	-
Principal payments on notes payable	(147,167)	-
Capital appropriations and grants	5,958,099	6,649,186
Purchases of capital assets	(12,807,346)	(10,614,262)
Net cash used in capital and related financing activities	(6,100,095)	(3,965,076)
Cash Flows from Investing Activities		
Interest on investments	535,022	285,641
Purchase of investments	(6,261,093)	(9,350,532)
Proceeds from sale and maturity of investments	4,480,811	3,579,585
Net cash used in investing activities	(1,245,260)	(5,485,306)
Net decrease in cash	(829,679)	(9,299,912)
Cash – Beginning of year	11,815,264	21,115,176
Cash – End of year	**$ 10,985,585**	**$ 11,815,264**

Statement of Cash Flows (Continued)

	Year Ended June 30	
	2005	2004
Reconciliation of net operating revenues (expenses) to net cash from operating activities:		
Operating loss	$ (34,399,644)	$ (33,882,930)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	3,496,847	3,314,325
Changes in assets and liabilities:		
Receivables, net	503,318	(4,265,705)
Inventories	51,090	(21,016)
Prepaid expenses and deferred charges	239,114	(1,668,952)
Notes receivable, net	(123,482)	31,000
Accounts payable	(709,835)	1,791,391
Salaries, wages, and benefits payable	738,367	930,092
Deferred revenue	326,807	1,409,963
Federal and non-federal student loans payable	20,641	(71,600)
Deposits held for others	(371,040)	336,919
Net cash used in operating activities	**$ (30,227,817)**	**$ (32,096,513)**

Balance Sheet
Discretely Presented Component Unit
Foundation

	June 30	
	2005	2004
Assets		
Cash and cash equivalents	$ 334,064	$ 194,128
Investments	1,229,429	1,077,958
Pledges receivable	147,411	48,277
Accounts receivable	-	-
Land	68,806	68,806
Total assets	**$ 1,779,710**	**$ 1,389,169**
Liabilities and Net Assets		
Due to Owens State Community College	$ 45,154	$ 30,275
Deferred revenue	104,645	389
Funds in custody (agency funds)	80,726	55,641
Total liabilities	230,525	86,305
Net assets:		
Invested in capital assets	68,806	68,806
Restricted:		
Nonexpendable - scholarships	789,446	698,880
Expendable:		
Scholarships	373,237	334,590
Program/Department support	213,175	128,119
Unrestricted	104,521	72,469
Total net assets	1,549,185	1,302,864
Total liabilities and net assets	**$ 1,779,710**	**$ 1,389,169**

See Notes to Financial Statements.

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

	Year Ended June 30	
	2005	2004
Revenue and Support		
Donations received	$ 311,875	$ 551,894
Other revenue	66,788	68,611
Investment income (loss):		
Interest and dividend income	40,428	28,688
Unrealized gain (loss) on investments	(72,892)	73,292
Realized gain/(loss) on investments	101,531	12,025
Total revenue and support	447,730	734,510
Expenses		
Program services:		
Scholarships	58,300	69,860
Equipment grant	54,956	305,613
Outside grants expense	50,389	49,612
Other program services	3,325	3,238
Total program services	166,970	428,323
Management and general	34,439	42,261
Total expenses	201,409	470,584
Increase (Decrease) in Net Assets	246,321	263,926
Net Assets		
Beginning of year	1,302,864	1,038,938
End of year	**$ 1,549,185**	**$ 1,302,864**

See Notes to Financial Statements.

(1) Summary of Significant Accounting Policies

(a) Organization

Owens Community College (the College) was created pursuant to Section 3357 of the Ohio Revised Code. In November 1994, the Ohio Board of Regents approved changing the status of the College from a technical college to a community college, pursuant to Section 3358 of the Ohio Revised Code. Subsequent to June 30, 1994, the College changed its legal name to Owens State Community College but operates under the name Owens Community College. The College's purpose is to provide instruction in post-secondary education programs to residents of the College's district. Students who satisfactorily complete such programs receive associate degrees or certificates in liberal arts and sciences, technical, or professional fields.

The College is a component unit of the State of Ohio (the State). The accompanying financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity,* in that the financial statements include those activities and functions over which the College is financially accountable.

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

(b) Financial Statement Presentation

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

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

(1) Summary of Significant Accounting Policies (Continued)

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

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

(c) Basis of Accounting

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

(d) Cash and Cash Equivalents

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

(e) Investments

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

(1) Summary of Significant Accounting Policies (Continued)

(f) Accounts Receivable

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

(g) Inventories

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

(h) Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation in the case of gifts. For equipment, the College's capitalization policy includes all items with a cost of $5,000 or more and an estimated useful life of greater than one year. Renovations to buildings that exceed 5% of the cumulative building cost are capitalized. Infrastructure and improvements other than to buildings are capitalized if the cost exceeds $100,000. Routine repairs and maintenance are charged to operating expenses in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally as follows:

Land improvements	5 to 10 years
Buildings	40 years
Building improvements	15 to 20 years
Equipment	5 to 10 years
Computers, hardware, and software	3 to 10 years
Vehicles	5 years
Furniture and accessories	5 to 10 years

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

(i) Deferred Revenue

Deferred revenue includes amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

(1) Summary of Significant Accounting Policies (Continued)

(j) Compensated Absences

College employees accumulate sick leave at a rate of 15 days per year. It is the policy of the College that, upon retirement from the College, an employee with 10 years or more of service may receive one-fourth of his or her accumulated unused sick leave up to a maximum of 65 days. Payments at retirement for accumulated sick leave are calculated using the rate of compensation at the date of retirement. The College's policy is to accrue all sick leave for which payment is deemed probable.

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

(k) Operating and Nonoperating Revenues

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

(l) Student Tuition and Fees

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

(m) Scholarship Discounts and Allowances

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

(1) Summary of Significant Accounting Policies (Continued)

(n) Auxiliary Activities

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

(o) Income Taxes

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

(p) Eliminations

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

(2) Cash and Investments

The College uses the "pooled cash" method of accounting for substantially all of its operating cash and investments, which, as of June 30, 2005 and 2004, were as follows:

	2005	2004
Cash	$ 10,985,585	$ 11,815,264
Investments	7,530,131	5,749,849
Totals	$ 18,515,716	$ 17,565,113

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

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

(a) Cash and Cash Equivalents

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

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

3. Uncollateralized.

(2) Cash and Investments (Continued)

At June 30, 2005, the carrying amount of the College's cash and cash equivalents for all funds was \$10,985,585. The difference in the carrying amount and the bank balance of \$13,376,874 is caused by items in transit and outstanding checks. Of the bank balance, \$500,000 was covered by federal depository insurance and \$12,876,874 was uncollateralized (category 3).

At June 30, 2004, the carrying amount of the College's cash and cash equivalents for all funds was \$11,815,264. The difference in the carrying amount and the bank balance of \$13,634,531 is caused by items in transit and outstanding checks. Of the bank balance, \$494,804 was covered by federal depository insurance and \$13,136,727 was uncollateralized (category 3).

For the fiscal year 2005, GASB 40 requires all investments to be recorded with the risk of the investments. Owens Community College has no formal investment policy. Investments are made according to the Ohio Code. The College's investments now include U.S. Government Agency securities. These are considered to be no risk investments.

Investments at June 30, 2005 and 2004 consist of investments in STAR Ohio of \$34,072 and \$33,384, respectively. GASB Statement No. 3 does not require STAR Ohio's assets to be categorized. Also included in investments are four Freddie Mac and two Fannie Mae and two Ginnie Mae securities with market value at June 30, 2005 and 2004 of \$7,496,059 and \$5,749,849, respectively. The governmental agency investments other than STAR Ohio, fall under category #1 above for investments.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the Securities and Exchange Commission as an investment company but does operate in a manner consistent with Rule 2a-7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on June 30, 2005 and 2004.

(2) Cash and Investments (Continued)

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

	2005	2004
Bond Mutual Fund	$ 438,127	$ 330,959
Equity Mutual Fund	791,262	746,959
Coins	40	40
Totals	$ 1,229,429	$ 1,077,958

(3) Accounts Receivable

The composition of accounts receivable at June 30, 2005 and 2004 is summarized as follows:

	2005	2004
Student receivables for fees and auxiliary services	$ 18,453,717	$ 16,838,840
Allowance for doubtful accounts	(1,561,447)	(1,608,373)
Grants – federal, state, local	2,147,412	4,187,795
Capital appropriations	367,651	1,389,804
Interest receivable	12,873	18,005
Other	327,729	462,214
Totals	$ 19,747,935	$ 21,288,285

(4) Student Loans Receivable

Student loans receivable at June 30, 2005 and 2004 include an allowance for doubtful loans of $253,186. Principal repayment and interest rate terms of federal and non-federal loans vary considerably. Federal loan programs are funded principally with federal contributions to the College under the Perkins program. Non-federal loan programs are funded principally with local grants to the College under these programs.

(5) Accounts Payable

The composition of accounts payable at June 30, 2005 and 2004 is summarized as follows:

	2005	2004
Trade payables	$ 2,028,101	$ 1,715,783
Construction payables	367,651	1,389,804
Totals	$ 2,395,752	$ 3,105,587

(6) State Support

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

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

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

The College capitalizes the costs of renovations to existing facilities as funds are expended. As of June 30, 2005 and 2004, construction in progress on such new facilities was $17,762,156 and $8,718,235, respectively, and unexpended appropriations authorized by the State of Ohio legislature for the purchase of land, renovation of existing facilities, and construction of new facilities were $6,658,758 and $7,060,849, respectively.

(7) Retirement Plans

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

The funding policy for the above plans is as follows:

SERS: The ORC provides statutory authority for employee and employer contributions. During 2005, SERS employees contributed 10% of their salary to the plan, and the College contributed 14% of covered payrolls to the plan. The total employer contributions to SERS for the years ended June 30, 2003, 2004 and 2005 were approximately $1,601,000, $1,783,473 and $1,874,447, respectively, which were equal to the required contributions for each year.

STRS: The ORC provides statutory authority for employee and employer contributions. During 2005, STRS employees contributed 10% of their salary to the plan, and the College contributed 14% of covered payrolls to the plan. The total employer contributions to STRS for the years ended June 30, 2003, 2004 and 2005 were approximately $3,004,000, $3,195,909 and $3,416,341, respectively, which were equal to the required contributions for each year.

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

Eligible employees (those who are full-time and salaried) have 90 days from their date of hire to make an irrevocable election to participate in the alternate retirement plan. Under this plan, employees who would have otherwise been required to be in STRS and who elect to participate in the alternate retirement program must contribute the employee's share of retirement contributions (10% STRS) to one of eight private providers approved by the State Department of Insurance. The legislation mandates that the employer must contribute 3.5% to the state retirement system to which the employee would have otherwise belonged. The employer also contributes what would have been the employer's share of the appropriate retirement system, less the aforementioned 3.5%, to the private provider selected by the employee. The College plan provides these employees with immediate plan vesting. The total employer contribution to the alternative retirement plan for the years ended June 30, 2003, 2004, and 2005 was approximately $49,000, $57,824 and $65,930, respectively.

(8) Post Employment Benefits Other Than Pension Benefits

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

(a) SERS

SERS provides postretirement healthcare coverage to age-and-service retirants with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Healthcare coverage for disability recipients is available. The healthcare coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply. A portion of each employer's contribution to SERS is set aside for the funding of postretirement healthcare. The Ohio Revised Code provides statutory authority for employer contributions. The 2004 and 2003 employer contribution rate for state employers was 14% of covered payroll; 4.91% was the portion that was used to fund healthcare for the year ended June 30, 2004. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2004, the minimum pay was established as $25,400.

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

For the year ended June 30, 2004, expenditures for OPEB's as a whole for SERS were $223.4 million. As of June 30, 2004, the audited net assets available for future OPEB payments were $300.8 million. The number of eligible benefit recipients for SERS was 62,000.

(b) STRS

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

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

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

The STRS board currently allocates employer contributions equal to 1.0% of covered payroll to the Health Care Reserve Fund, from which payments for healthcare benefits are paid. The balance in the Health Care Reserve Fund was approximately $3.1 billion at June 30, 2004.

For the year ended June 30, 2004, the net healthcare costs paid by the STRS system as a whole were $268.7 million. There were 111,853 eligible benefit recipients.

(9) Federal and State Grants

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

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

(10) Capital Assets

Capital asset activity for the years ended June 30, 2005 and 2004 was as follows:

	Balance June 30, 2004	Additions	Retirements	Balance June 30, 2005
Nondepreciated capital assets:				
Land	$ 4,604,958	$ 883,000	$ -	$ 5,487,958
Construction in progress	8,718,235	9,043,921	-	17,762,156
Total nondepreciated capital assets	13,323,193	9,926,921	-	23,250,114
Other capital assets:				
Land improvements	6,767,881	618,892	-	7,386,773
Buildings	71,479,570	256,098	-	71,735,668
Equipment	6,904,284	1,525,345	(16,350)	8,413,279
Computers, hardware, and software	7,474,944	370,014	115,700	7,960,658
Vehicles	1,185,660	110,076	-	1,295,736
Furniture and accessories	370,054	-	-	370,054
Total other capital assets	94,182,393	2,880,425	99,350	97,162,168
Total capital assets	107,505,586	12,807,346	99,350	120,412,282
Accumulated depreciation:				
Land improvements	(5,894,669)	(490,502)	-	(6,385,171)
Buildings	(26,079,895)	(1,999,181)	-	(28,079,076)
Equipment	(6,106,592)	(708,314)	16,350	(6,798,556)
Computers, hardware, and software	(7,306,834)	(220,899)	(115,700)	(7,643,433)
Vehicles	(1,142,685)	(53,748)	-	(1,196,433)
Furniture and accessories	(331,339)	(24,203)	-	(355,542)
Total accumulated depreciation	(46,862,014)	(3,496,847)	(99,350)	(50,458,211)
Total capital assets, net	$ 60,643,572	$ 9,310,499	$ -	$ 69,954,071

(10) Capital Assets (Continued)

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

(11) Related Organization

The College is affiliated with the Owens State Community College Foundation (the Foundation), which was established in June 1996 by the trustees of the College through signing a resolution that transferred all assets, liabilities, principal, and income from the Michael J. Owens Technical College Charitable Trust (the Trust) to the Foundation. The Foundation has been determined to be exempt from Federal income taxes under IRC Section 501(c)(3). The Foundation also reimburses the College for certain educational expenses. Total assets of the Foundation as of June 30, 2005 and 2004 were $1,779,710 and $1,389,169, respectively. The College received $166,970 and $428,323 from the Foundation in 2005 and 2004, respectively.

(12) Risk Management

During the normal course of operations, the College has become a defendant in various legal actions. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. However, in the opinion of legal counsel and College management, the disposition of all pending litigation will not have a material adverse effect on the financial condition of the College.

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

The College maintains a split-funded health insurance program. Prevention of catastrophic losses is maintained through both individual and aggregate stop-loss coverage. The College's cost during the year for this program is for the payment of claims, third-party claims administration, and stop-loss coverage.

The College participates in the State of Ohio Workers' Compensation program.

(13) Noncurrent Liabilities

Noncurrent liabilities activity for the years ended June 30, 2005 and 2004 was as follows:

	Balance June 30, 2004	Increases	Decreases	Balance June 30, 2005	Amount due within one year
Benefits payable	$ 1,212,566	$ 113,075	$ 35,620	$ 1,290,021	$ 64,501
Notes payable	-	896,319	147,167	749,152	169,864
Non-federal student loans	147,324	1,794	1,794	147,324	-
Federal student loans	712,142	34,951	14,310	732,783	-

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

Notes payable consists of two notes to a financing institution for the purchase of a new phone system. The original amounts of the notes were $112,048 and $784,270 and bear interest at a rate of 4.73%. The notes require monthly payments of $16,804 including interest.

(13) Noncurrent Liabilities (Continued)

Schedule of maturities for the notes are as follows:

2006	$	169,864
2007		178,075
2008		186,683
2009		195,708
2010		18,822
Total	$	749,152

	6/30/2005	6/30/2006	6/30/2007	6/30/2008	6/30/2009
Note #1	$ 95,161	$ 73,999	$ 51,814	$ 28,557	$ 4,176
Note #2	653,991	505,289	349,398	185,972	14,646

(14) Net Assets

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

	2005	2004
Restricted - expendable:		
Student loans	$ 106,676	$ 106,676
Unrestricted:		
Designated	$ 3,179,845	$ 7,450,498
Uncommitted	15,660,700	12,136,576
Total	$ 18,840,545	$ 19,587,074

Supplemental Information

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

The Board of Trustees
Owens State Community College

We have audited the financial statements of Owens State Community College as of and for the year ended June 30, 2005 and have issued our report thereon dated September 15, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

The Board of Trustees
Owens State Community College

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

Plante & Moran, PLLC

September 15, 2005

plante moran

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

The Board of Trustees
Owens State Community College

Compliance

We have audited the compliance of Owens State Community College with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The major federal program of Owens State Community College is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Community College's management. Our responsibility is to express an opinion on the Community College's compliance based on our audit.

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

In our opinion, Owens State Community College complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2005-1.

The Board of Trustees
Owens State Community College

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Plante & Moran, PLLC

September 15, 2005

Owens State Community College

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2005

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Project/Grant Number	Federal Expenditures
Student Financial Assistance Cluster:			
U.S. Department of Education - Direct			
Federal Supplemental Educational Opportunity Program	84.007	N/A	$ 490,192
Federal Family Education Loan Program	84.032	N/A	25,625,354
Federal Work-Study Program	84.033	N/A	464,083
Federal Perkins Loan Program	84.038	N/A	237,860
Federal Pell Grant Program	84.063	N/A	15,331,200
Total Student Financial Assistance Cluster			42,148,689
WIA CLUSTER			
Passed through Wood County Jobs and Family Service			
Workforce Investment Act of 1998 - Youth Training	17.259		15,230
Passed through from Illinois State University			
Workforce Investment Act - Retraining America's Workers for the 21st Century Advanced Manufacturing Jobs	17.260		269,950
OTHER PROGRAMS			
U.S. DEPARTMENT OF EDUCATION			
Vocational Education (Perkins II)	84.048	VECPIII-P01	366,543
Title III-Higher Education Institutional Aid-Strengthening Institutions	84.031A		16,999
Passed through from the State of Ohio Department of Education:			
Adult Basic and Literacy Education (ABLE) Grants:			
Adult Basic and Literacy Education	84.002	074864-AB-S1-05	106,250
Adult Basic and Literacy Education	84.002	074864-AB-SI-04C	4,045
Adult Basic and Literacy Education	84.002	074864-AB-SL-05	243,129
Adult Basic and Literacy Education	84.002	074864-AB-SL-04C	27,494
Adult Basic and Literacy Education - LMHA Grant	84.002		15,785
Adult Basic and Literacy Education - LMHA Computer Grant	84.002		18,500
Total Adult Basic and Literacy Education Grants			415,203
Passed through from University of Toledo -			
Technical preparation	84.243	N/A	61,726
Passed through from the State of Ohio Department of Education			
Para Professional Teaching Assoc Degree	84.367A		9,340
Total U.S. Department of Education			43,018,500

See Notes to Schedule of Expenditures of Federal Awards.

Schedule of Expenditures and Federal Awards (Continued)
Year Ended June 30, 2005

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Project/Grant Number	Federal Expenditures
National Institute of Health			
Passed through from Toledo Hospital			
NIH - NHLBI - Cardiovascular Disease Enhanced Dissemination and Utilization Center	83.837		7,096
Centers for Disease Control and Prevention			
Passed through from the American Assn.of Community Colleges			
Bridges to Healthy Communities Mini Grant	93.938		3,684
National Science Foundation			
Passed through from University of Toledo -			
NSF - Alternative Energy	47.076	N/A	14,428
Passed through from Sinclair Community College			
NSF - IT Student Retention	47.076	N/A	4,374
			18,802
Bureau of Educational and Cultural Affairs			
Passed through from the State of Ohio Board of Regents			
Title II Teacher Quality Enhancement	19.408		15,474
Total expenditures of federal awards			**$ 43,348,736**

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Owens State Community College and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Loans Outstanding

The institution had the following loan balances outstanding at June 30, 2005. These loan balances are not included in the federal expenditures presented in the schedule.

Cluster/Program Title	CFDA Number	Amount Outstanding
SFA Cluster - Federal Perkins Loan Program	84.038	$ 1,137,848

Current year Federal Perkins Loan expenditures consist of new loans provided to students. They were funded from past collections of principal and interest within the loan fund. No new federal capital contributions or matching institutional capital contributions were noted during the year ended June 30, 2005.

Note 3 - Adjustments and Transfers

The current year grant award for the Federal Supplemental Educational Opportunity Grant (#84.007) was $445,030. It was supplemented by a transfer from the Federal Work Study Program (#84.033) of $45,327.

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? ____ Yes __X__ No

Federal Awards

Internal control over major program(s):

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

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

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

Identification of major program(s):

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

Dollar threshold used to distinguish between type A and type B programs: $531,701

Auditee qualified as low risk auditee? __X__ Yes ____ No

Section II - Financial Statement Audit Findings

Reference Number	Findings
	None

Section III - Federal Program Audit Findings

Reference Number	Findings
2005-01	**Program Name** – Student Financial Assistance Cluster – 84.007, 84.032, 84.038, 84.033, 84.063

Finding Type – Noncompliance – Timely return of Title IV refunds

Criteria – Return of Title IV funds is required to be refunded within 30 days after the date the institution determines that a student receiving the aid has withdrawn.

Condition – During our testing, we noted the return of funds was not being performed within the 30 days of the date the University determined a withdrawal took place.

Questioned Costs - Unknown

Context – 13 out of 25 students tested did not have the Title IV refund completed within the 30 days after withdrawal was determined to have taken place.

Cause and Effect – The student financial aid office appears to be calculating the refunds within the required timeframe; however, the office is not submitting the payment within the necessary timeframe.

Recommendation – The student financial aid department should implement procedures to ensure that refunds are submitted within 30 days after student withdraws.

Grantee Response – Owens has implemented a more careful watch on all students with loans and is making sure to submit the repayments to accounts payable much more timely so this never happens again. We began implementing this as soon as it was brought to our attention. We are also looking into using EFT for this.

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OWENS STATE COMMUNITY COLLEGE

WOOD COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 1, 2005