

Owens State Community College
(a component unit of the State of Ohio)

Financial Report
with Supplemental Information
June 30, 2012 and 2011



Dave Yost • Auditor of State

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, 2011 through June 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

December 5, 2012

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Owens State Community College

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Independent Auditor's Report

To the Board of Trustees
Owens State Community College

We have audited the accompanying statement of net assets of Owens State Community College (the "College") and its discretely presented component unit as of June 30, 2012 and 2011 and the related statements of revenue, 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 opinions 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 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 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 opinions.

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, 2012 and 2011 and the results of ITS operation, and changes in net assets and cash flows, if applicable, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2012 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 and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide 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 audits.

To the Board of Trustees
Owens State Community College

The accompanying other supplemental information, the schedule of expenditures of federal awards, is presented for the purpose 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits 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 financial statement or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, as identified on pages 3-15, 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 which 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 supplemental 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.

Plante & Moran, PLLC

October 12, 2012

Owens State Community College

Management's Discussion and Analysis - Unaudited

The following management's discussion and analysis (MD&A) provides an overview of the financial position and activities of Owens State Community College for the year ended June 30, 2012 with comparative information for the years ended June 30, 2011 and 2010. The MD&A should be read in conjunction with the accompanying audited financial statements and footnotes.

ABOUT OWENS STATE COMMUNITY COLLEGE

Founded in 1965, Owens Community College (the "College") continues to offer an affordable, quality education to those who are seeking an associate degree, continuing education courses and professional development. The College allows you to complete the first two years of a bachelor's degree and then transfer to any four-year University or College. To enhance this process, the College has cultivated transfer agreements with over 20 area four-year colleges and universities.

The Toledo-area campus covers more than 280 acres and is located near downtown Toledo. The 60-acre Findlay-area campus is at 3200 Bright Road on Findlay's northeast side. The College also provides educational opportunities at Arrowhead Park Learning Center located in Maumee and the Source, Lucas County's One-Stop Employment Center in downtown Toledo. Between our four campus locations, over 45,000 credit and non-credit students are served annually. The College is a comprehensive community college accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools.

The College is governed by a board of trustees who are responsible for oversight of academic programs, budgets, general administration, and employment of faculty and staff. The College is currently governed by a nine voting member board of trustees. The trustees are appointed by the governor with the advice and consent of the State Senate for staggered six-year terms.

The following financial statements reflect all assets, liabilities, and net assets of the College and its discretely presented legally separate entity, Owens Community College Foundation (the "Foundation"). The Foundation's primary function is fundraising to supplement the resources that are available to the College in support of its programs. The Foundation is governed by a separate board of directors which is self-perpetuating and consists of graduates and friends of the College. Nearly all the assets of the Foundation are restricted by donors to activities of the College. The College does not control the timing or amount of receipts from the Foundation.

Owens State Community College

Management's Discussion and Analysis - Unaudited (Continued)

ABOUT THE FINANCIAL STATEMENTS

The annual financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*. In addition to this MD&A section, the audited financial statements include a statement of net assets; statement of revenue, expenses, and changes in net assets; statement of cash flows; and the notes to the financial statements. In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, which amends GASB Statement No. 14, the Foundation is discretely presented as a component unit of the College.

Using This Annual Report

The College's annual report consists of three basic financial statements: the statement of net assets, the statement of revenue, 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 the College's net assets and changes in net assets. Increases or decreases in the College's net assets are indicative of the College's financial position. Changes of a nonfinancial nature are relevant as well, such as enrollment trends, program growth or decline, the functionality of facilities, and required maintenance.

The College's financial statements are prepared using the accrual basis of accounting.

Another important factor to consider when evaluating the financial viability of the College is its ability to meet financial obligations as they mature. The statement of cash flows presents the information related to cash inflows and outflows. This is broken down into four components: operating, investing, capital, and noncapital financing activities. The statement shows the College's sources and uses of cash.

Owens State Community College

Management's Discussion and Analysis - Unaudited (Continued)

FINANCIAL HIGHLIGHTS

The net assets by category for fiscal years 2012, 2011, and 2010 are shown below. Net assets in aggregate decreased approximately \$9,509,000 from fiscal year 2011 and decreased approximately \$1,257,000 from fiscal year 2010. Three factors have affected net assets including a drop in enrollment, State share of instruction support being reduced by 12 percent compared to fiscal year 2011 and the lack of a state capital bill for fiscal years 2011 and 2012. However, for the biennium of fiscal years 2013 and 2014, the College allocation is approximately \$6,000,000 with a carryforward amount of approximately \$500,000.

	Net Assets			
	Invested in Capital Assets	Restricted Expendable	Unrestricted	Total Net Assets
FY 2012	\$ 86,995,041	\$ -	\$ 9,693,004	\$ 96,688,045
FY 2011	87,466,044	132,149	18,598,409	106,196,602
FY 2010	85,051,367	4,812,504	17,589,270	107,453,141

A summarization of the College's assets, liabilities, and net assets at June 30, 2012, 2011, and 2010 follows:

	June 30		
	2012	2011	2010
Assets			
Current assets	\$ 43,173,233	\$ 53,471,958	\$ 66,206,999
Capital assets	93,268,656	94,943,498	88,623,810
Notes receivable	37,059	36,059	35,559
Total assets	136,478,948	148,451,515	154,866,368
Liabilities			
Current liabilities	32,296,360	33,653,677	38,825,617
Noncurrent liabilities	7,494,543	8,601,236	8,587,610
Total liabilities	39,790,903	42,254,913	47,413,227
Net Assets			
Invested in capital assets - Net of debt	86,995,041	87,466,044	85,051,367
Restricted	-	132,149	4,812,504
Unrestricted	9,693,004	18,598,409	17,589,270
Total net assets	<u>\$ 96,688,045</u>	<u>\$ 106,196,602</u>	<u>\$ 107,453,141</u>

Owens State Community College

Management's Discussion and Analysis - Unaudited (Continued)

2012 Variances

Current assets decreased by approximately \$10,299,000 from 2011 to 2012 primarily due to decreases in investments, prepaid and deferred charges and accounts receivable. Capital assets decreased by approximately \$1,675,000 due to capital asset depreciation offset by capital asset purchases. Current liabilities decreased from 2011 to 2012 primarily due to decrease in salaries, wages and fringe benefits payable and accounts payable. The noncurrent liabilities decreased from 2011 to 2012 due to principal payment on debt. Net assets decreased primarily due to the decrease in capital assets and state appropriation and the decline in student enrollment as noted earlier.

2011 Variances

Current assets decreased by approximately \$12,735,000 from 2010 to 2011 primarily due to decreases in cash and cash equivalents, prepaid and deferred charges and accounts receivable. Capital assets increased by approximately \$6,320,000 due to additions funded through capital appropriations and notes payable. Current liabilities decreased from 2010 to 2011 primarily due to decreases in deferred revenue and accounts payable. The noncurrent liabilities increased from 2010 to 2011 primarily due to an increase in notes payable. Net assets decreased primarily due to the offering of a retirement incentive plan to faculty and staff.

Owens State Community College

Management's Discussion and Analysis - Unaudited (Continued)

The following is a summary of the College's revenue, expenses, and changes in net assets for the years ended June 30, 2012, 2011, and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Revenue			
Student tuition and fees	\$ 27,920,158	\$ 30,204,904	\$ 29,133,497
Grants - Federal, state, and local	4,238,630	4,809,309	6,771,399
Sales and service	212,925	303,108	66,781
Auxiliary activities	11,491,639	12,323,542	12,441,711
Other operating revenue	<u>772,111</u>	<u>650,216</u>	<u>636,572</u>
Total operating revenue	44,635,463	48,291,079	49,049,960
Operating Expenses			
Educational and general	109,076,627	117,000,195	111,317,939
Depreciation	5,229,745	4,603,094	5,124,547
Auxiliary enterprises	<u>11,655,086</u>	<u>12,197,713</u>	<u>12,774,771</u>
Total operating expenses	<u>125,961,458</u>	<u>133,801,002</u>	<u>129,217,257</u>
Operating Loss	(81,325,995)	(85,509,923)	(80,167,297)
Nonoperating Revenue			
State appropriations, including federal stabilization funds	36,911,421	41,936,195	43,266,082
Pell Grant	34,748,942	39,984,218	35,892,560
Investment income	249,365	623,649	618,460
Other nonoperating expense	<u>(196,522)</u>	<u>(215,472)</u>	<u>(55,392)</u>
Total nonoperating revenue	<u>71,713,206</u>	<u>82,328,590</u>	<u>79,721,710</u>
Loss Before Other Revenue - Before capital appropriations and grants	(9,612,789)	(3,181,333)	(445,587)
Capital Appropriations and Grants	<u>104,232</u>	<u>1,924,794</u>	<u>9,621,642</u>
(Decrease) Increase in Net Assets	(9,508,557)	(1,256,539)	9,176,055
Net Assets - Beginning of year	<u>106,196,602</u>	<u>107,453,141</u>	<u>98,277,086</u>
Net Assets - End of year	<u>\$ 96,688,045</u>	<u>\$ 106,196,602</u>	<u>\$ 107,453,141</u>

Owens State Community College

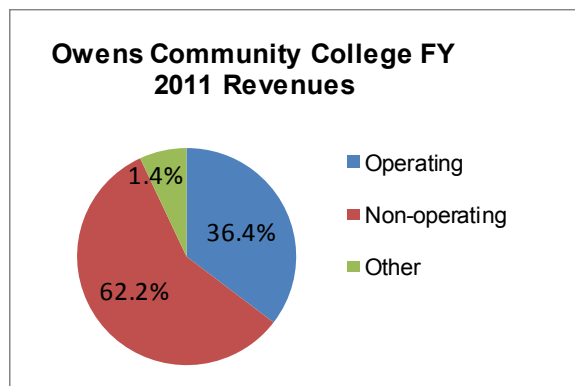
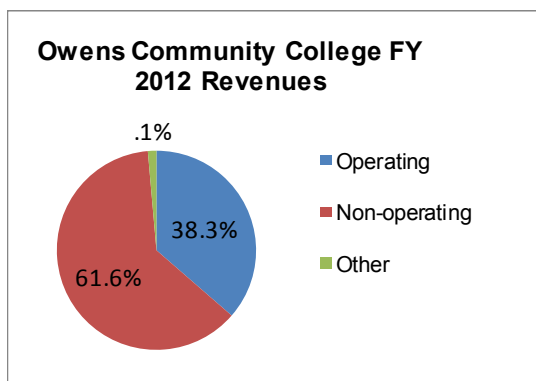
Management's Discussion and Analysis - Unaudited (Continued)

Statement of Revenue, 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 86 percent and the full-time equivalent (FTE) increased by 107 percent (an FTE is defined as a student taking 15 credit hours in a semester). For the fall semester 2011, the headcount of 17,173 represented a 14.04 percent decrease from fall 2010; for the fall semester 2010, the headcount of 19,980 represented a 15.35 percent decrease from fall 2009, while for the fall semester 2009, the headcount of 23,602 represented a 9.8 percent increase over fall 2008. The FTEs for fall 2011, 2010, 2009, and 2008 were 10,246, 12,003, 12,988 and 11,216, respectively, and represented a decrease of 14.63 percent in 2011 and 7.5 percent in 2010 in comparison to prior years and an increase of 15.8 percent in 2009 compared to 2008.

The College's two major sources of revenue are operating (tuition and fees) and nonoperating (the State Share of Instruction). Both types of revenue are tied to enrollment, with tuition and fees being generated via an assessment mechanism. This mechanism 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 model groups referred to as Arts and Humanities (AH); Business, Education & Social Sciences (BES); and Sciences, Technology, Engineering, Mathematics and Medical (STEM 2). 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. This net value is then factored by the College's FTE students in that program (Hours/30) to arrive at the monies due to the College for the State Share of Instruction.

The charts below present total revenue by category for the fiscal years ended June 30, 2012 and 2011:

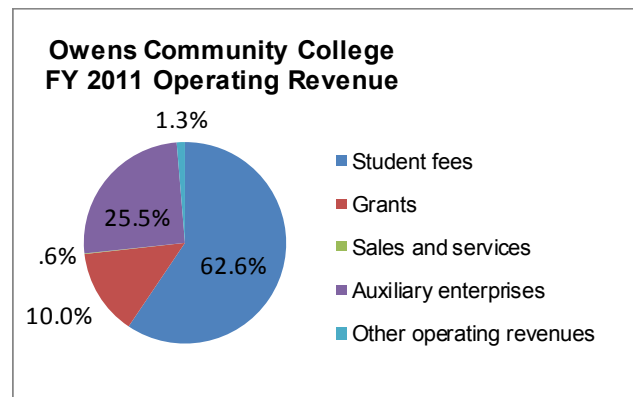
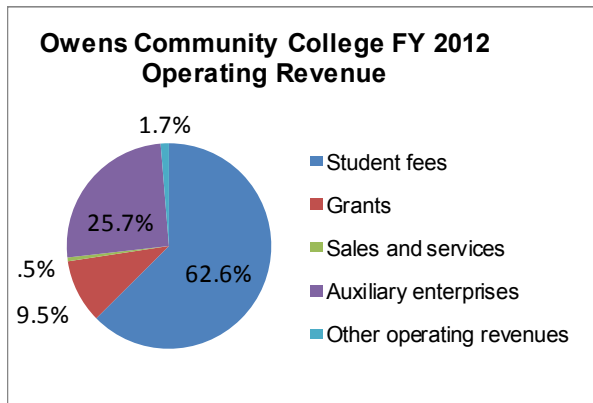


Owens State Community College

Management's Discussion and Analysis - Unaudited (Continued)

Operating Revenue

The charts below reflect the College's operating revenue for the fiscal years ended June 30, 2012 and 2011:



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 noninstructional 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. For fall 2006, the per credit hour fee increased to \$122.50, reflecting a \$6.00 per credit hour increase in the instructional fee, and a \$.50 per credit hour general fee increase for student organization support. The State of Ohio issued a tuition freeze mandated for fiscal years 2007, 2008 and 2009, freezing tuition at \$123 per credit hour. This mandate was rescinded for fiscal year 2010. For fiscal year 2011, the per credit hour rate was \$131.75 for instructional and general fees. For fiscal year 2012, the state mandated the tuition increase could be increased by 3.5 percent or \$200 per year whichever was greater for the institution. As a result tuition for fall 2011 was increase 3.5 percent with the remaining increase to \$200 per year implemented in spring of 2012. Instructional and general fees were \$136.36 for fall 2011 and \$138.89 for spring 2012.

Gross student tuition and fees revenue decreased in fiscal 2012 and increased during the prior two fiscal years of 2011 and 2010. Total tuition and fees were \$51,136,226, \$56,347,231, and \$55,336,093, respectively.

Scholarship allowances and scholarship dollars per FTE have also increased. For 2012, scholarship allowances totaled \$23,216,068 and scholarship dollars per FTE were \$2,266. In 2011, scholarship allowances totaled \$26,142,327 and scholarship dollars per FTE were \$2,178. In fiscal year 2010, scholarship allowances totaled \$26,202,596 and scholarship dollars per FTE were \$2,017.

Owens State Community College

Management's Discussion and Analysis - Unaudited (Continued)

Grant revenue decreased in fiscal years 2012 and 2011 by approximately \$571,000 and \$1,962,000, respectively. The decrease in grant revenue for fiscal year 2012 was due to the timing of new grants beginning and existing grants ending during the year. The decrease in grant revenue for fiscal year 2011 was due to several nonrenewable federal stimulus grants ending during fiscal years 2010 and 2011.

Auxiliary service activities (including food services, bookstore operations, childcare services, Center for Fine and Performing Arts, advertising, communications, and copy center) decreased primarily due to a decrease in bookstore revenue and an increase in the scholarship allowance.

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 amounted to \$36,911,421, \$41,936,195, and \$43,266,082 in fiscal years 2012, 2011, and 2010, respectively. The State share of instruction for fiscal years 2011 and 2010 included \$6,112,380 and \$6,196,030 of federal stabilization funding, respectively. There was no federal stabilization included with the State share of instruction for fiscal year 2012. The State share of instruction was \$3,602, \$3,494 and \$3,331 per FTE for fiscal years 2012, 2011 and 2010, respectively.

Another component of nonoperating revenue is investment income. In 2012, investment income decreased by approximately \$374,000 in comparison to 2011 and 2010, when investment earnings had a slight increase. Investment income declined in fiscal 2012 due to the realized and unrealized loss on investments and reduced interest and dividends.

Pell grants declined in fiscal year 2012 by approximately \$5,200,000 compared to an increase in fiscal year 2011 of approximately \$4,000,000. The decline in Pell grants is reflective of the decrease in enrollment and changes in financial aid regulations which eliminated the summer awards.

Operating Expense Changes

The College's operating expenses reflect changes related to student enrollment changes, college initiatives, and instructional program changes, in addition to changes in salaries, benefits, utilities, and other operating expenditures. Instructional and departmental research expenses decreased in fiscal year 2012 due to the cash separation program and decreased salary, wages and fringe benefits compared to the fiscal year 2011 increase in expenditures due to increased adjunct and faculty overload increases. Institutional research and public service expenses had a slight increase in fiscal year 2012 and decreased in fiscal year 2011 due to funding of grant-related programs. Academic support and student services expense increased with the development of a Teaching and Learning Center for academic staff and a Learning Center for students. The College had a decline in utility cost due to the completion of the energy conservation project in 2011 and plant operation and maintenance expense had a decrease in fiscal years 2012 and 2011 due to the completion of several renovation projects throughout campus. Scholarships and other student aid decreased in fiscal year 2012 due to a decline in enrollment and decline in Pell grants, but were higher in fiscal year 2011 due to an increase in Pell grants.

Owens State Community College

Management's Discussion and Analysis - Unaudited (Continued)

The depreciation expense for fiscal years 2012, 2011, and 2010 was \$5,229,745, \$4,603,094, and \$5,124,547, respectively.

Capital Assets

At June 30, 2012, 2011, and 2010, the College had \$93,268,656, \$94,943,498, and \$88,623,810, respectively, invested in capital assets.

The details of the capital assets at June 30, 2012, 2011, and 2010 are shown below:

	2012	2011	2010
Land and land improvements	\$ 38,560,041	\$ 36,090,710	\$ 30,211,543
Buildings	106,027,608	104,778,711	97,296,960
Equipment	26,441,534	24,372,188	22,671,302
Leasehold improvements	488,773	488,773	488,773
Less accumulated depreciation	(78,426,948)	(73,805,804)	(69,202,709)
Net of depreciation	93,091,008	91,924,578	81,465,869
Construction in progress	177,648	3,018,920	7,157,941
Total	<u>\$ 93,268,656</u>	<u>\$ 94,943,498</u>	<u>\$ 88,623,810</u>

Debt associated with capital assets relate to equipment, information technology infrastructure and funding for the upgrade to the existing infrastructure with energy efficient resources. Total debt remaining at June 30, 2012, 2011, and 2010 was \$6,273,615, \$7,477,454, and \$6,417,348, respectively, with the majority of the debt related to the Energy Efficiency program.

Capital Projects

Fiscal year 2012 has seen the completion of the information technology infrastructure, classroom renovation in Heritage Hall, College Hall and Transportation technology, and the development of Heritage Hall gaming area for the training of casino employees as well as several smaller projects.

Fiscal year 2011 saw the completion of the campus energy conservation project, tiered classroom in Health Technology, Welding Annex, parking lot and sidewalk repairs and campus signage in addition to several smaller projects. The information technology infrastructure project began during 2011 and was completed in fiscal year 2012.

Owens State Community College

Management's Discussion and Analysis - Unaudited (Continued)

Cash Flows

The statement of cash flows for the years ended June 30, 2012, 2011, and 2010 is as follows:

	Year Ended June 30		
	2012	2011	2010
Cash Flows from Operating Activities			
Student tuition and fees	\$ 27,184,571	\$ 27,004,313	\$ 31,798,520
Grants - Federal, state, and local	6,733,151	2,949,306	9,217,392
Payments to employees, suppliers, students, and others	(119,911,372)	(128,393,383)	(123,440,858)
Auxiliary enterprises	11,389,302	12,264,539	12,365,155
Sales and services	523,494	80,546	703,613
Other receipts	732,359	662,704	645,756
Net cash used in operating activities	(73,348,495)	(85,431,975)	(68,710,422)
Cash Flows from Noncapital Financing Activities			
Pell grant	34,748,942	39,984,218	35,892,561
State appropriations	36,911,421	41,936,195	43,266,082
Agency transactions	135,299	(30,399)	122,582
Net cash provided by noncapital financing activities	71,795,662	81,890,014	79,281,225
Cash Flows from Capital and Related Financing Activities			
Proceeds from notes payable	51,696	2,305,477	6,250,000
Principal payments on notes payable	(1,255,535)	(1,245,371)	(109,147)
Capital appropriations and grants	104,232	1,924,794	9,578,691
Interest paid on notes payable	(196,522)	(215,472)	(55,392)
Purchases of capital assets	(3,706,223)	(10,806,956)	(14,888,289)
Net cash (used in) provided by capital and related financing activities	(5,002,352)	(8,037,528)	775,863
Cash Flows from Investing Activities			
Interest on investments	321,020	623,649	618,460
Purchase of investments	(4,519,606)	(30,057,459)	(12,072,131)
Proceeds from sale and maturity of investments	10,932,146	27,649,832	13,922,144
Net cash provided by (used in) investing activities	6,733,560	(1,783,978)	2,468,473
Net Increase (Decrease) in Cash	178,375	(13,363,467)	13,815,139
Cash - Beginning of year	5,372,614	18,736,081	4,920,942
Cash - End of year	<u>\$ 5,550,989</u>	<u>\$ 5,372,614</u>	<u>\$ 18,736,081</u>

Owens State Community College

Management's Discussion and Analysis - Unaudited (Continued)

	Year Ended June 30		
	2012	2011	2010
Reconciliation of operating loss to net cash			
from operating activities:			
Operating loss	\$ (81,325,995)	\$ (85,509,923)	\$ (80,167,297)
Adjustments to reconcile operating loss to net cash			
from operating activities:			
Depreciation	5,229,745	4,603,094	5,124,547
Changes in assets and liabilities:			
Receivables - Net	1,303,637	2,020,039	918,173
Inventories	81,127	(19,508)	212,433
Prepaid expenses and deferred charges	2,340,493	(276,359)	(1,743,995)
Notes receivable - Net	(1,000)	(500)	-
Accounts payable	(200,965)	(2,031,544)	255,192
Salaries, wages, and benefits payable	(1,347,020)	1,932,336	728,222
Deferred revenue	571,483	(6,149,610)	5,962,303
Net cash used in operating activities	<u>\$ (73,348,495)</u>	<u>\$ (85,431,975)</u>	<u>\$ (68,710,422)</u>

Cash used in operating activities for fiscal year 2012 decreased over 2011 due primarily to a decrease in operating expenses incurred by the College as well as a decrease in the scholarship discount. Primary inflows of operating cash are from tuition and fees, grant revenue, and auxiliary enterprises. Primary outflows of operating cash are payments to employees and suppliers. Cash flows from noncapital financing activities decreased due to the decreased amount of Pell grants students received and a decrease in state appropriations. Cash flows from capital and related financing activities increased from 2011 due to the decrease in capital appropriations and which is offset by the issuance of a lease payable. Cash flows from investing activities increased during the fiscal year.

Cash used in operating activities for fiscal year 2011 increased over 2010 due primarily to an increase in operating expenses incurred by the College as well as an increase in the scholarship discount. Primary inflows of operating cash are from tuition and fees, grant revenue, and auxiliary enterprises. Primary outflows of operating cash are payments to employees and suppliers. Cash flows from noncapital financing activities increased due to the increased amount of Pell grants students received which is offset by a decrease in state appropriations. Cash flows used in capital and related financing activities decreased from 2010 due to the decrease in capital appropriations and which is offset by the issuance of a note payable. Cash flows from investing activities decreased during 2011.

Initiatives

The College is committed to identifying opportunities that will strengthen our mission of serving our students and community. Our commitment has been reinforced through our new program development leading to an associate degree or certificate, renovations of existing facilities, and providing assistance to the community.

Owens State Community College

Management's Discussion and Analysis - Unaudited (Continued)

Several new programs began during the fiscal year which are designed to prepare students for employment within the discipline. The College began offering three new associate degree programs in the fall of 2011 upon receiving formal approval by the Ohio Board of Regents. The new associate degree programs are Exercise Science Concentration through the School of Health Sciences and Music Business Technology and Interior Design through the School of Arts and Sciences. New certification programs began during the fall of 2011 with a Popular Music Certificate through the Fine and Performing Arts department and with the Urban Agriculture and Sustainability Certificate through the Science department.

The commitment to providing assistance to the community is demonstrated through scholarship programs, community service programs and grant initiatives. Community service programs are designed to provide students and employees with the opportunity to create collaborative efforts and give back to the community. The Harvest Food Pantry program is a new service learning program designed to provide students with free nonperishable food resources and various service learning opportunities. The Harvest Food Pantry began during the fall of 2011 through donations and collaboration with the Toledo Food Bank. The program is located on both the Toledo and Findlay campuses serving over 300 students and distributing over 3,200 pounds of food and hygiene items. Many other service programs are sponsored by student organizations and within academic programs. A few of the programs that took place during the year were Give Kids A Smile Day by the Dental Hygiene program, toy drive for area hospitals by the Findlay Nursing students, winter clothing drive by the Diagnostic Medical Sonography program and the shoe collection drive by Environmental Club.

The focus of grant initiatives span many areas such as training programs, student preparedness, regional growth and development and student success. The College has been awarded the Federal Health Career Training Grant through our membership in the Health Professions Pathway Consortium. The Health Professions Pathway Consortium has ten community college members from around the country. The Consortium has been awarded a \$19.6 million grant for workforce training that targets the health profession. Owens will receive \$1.4 million as part of the three-year grant. Gateway to College National Network has awarded a start-up grant to work with young adults who drop out of high school. The Gateway to College program is designed to enable the student to complete high school while earning college credit towards a certificate or associate degree.

The College's Information Technology (IT) Operations Center completed a comprehensive renovation and upgrade during fiscal year 2012. Drawing from a combination of state and local funds, this project was critical to assure the integrity and reliability of the College's IT operations. This project included upgrades to infrastructure, new hardware equipment and software and two telepresence systems, at a cost of approximately \$2.2 million.

Owens State Community College

Management's Discussion and Analysis - Unaudited (Continued)

With the allocation of capital funds from the State for fiscal years 2013 and 2014, the College has updated its plans to expand the space to accommodate the two year waiting period for the Culinary Arts program as well as complete the renovation of Heritage Hall by adding approximately 30 classrooms. The renovation is scheduled for completion in fall 2013 with an approximate cost of \$5,500,000.

Owens State Community College

Statement of Net Assets

	June 30	
	2012	2011
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 5,550,989	\$ 5,372,614
Investments (Note 3)	8,412,035	15,145,595
Accounts receivable - Net (Note 4)	23,177,827	24,539,500
Receivable from Foundation (Note 9)	96,499	56,747
Prepaid expenses and deferred charges	4,733,298	7,072,337
Deposits	22,005	23,458
Inventories	1,174,305	1,255,432
Student loans receivable - Net	6,275	6,275
Total current assets	43,173,233	53,471,958
Noncurrent Assets		
Capital assets - Net (Note 5)	93,268,656	94,943,498
Student loans receivable - Net	37,059	36,059
Total noncurrent assets	93,305,715	94,979,557
Total assets	<u>\$ 136,478,948</u>	<u>\$ 148,451,515</u>
Liabilities and Net Assets		
Liabilities		
Current liabilities:		
Accounts payable	\$ 3,061,396	\$ 3,262,361
Notes payable (Note 6)	1,308,434	1,253,858
Salaries, wages, and fringe benefits payable	7,394,234	8,892,976
Deferred revenue	20,532,296	19,960,813
Deposits held for others	-	283,669
Total current liabilities	32,296,360	33,653,677
Noncurrent liabilities:		
Benefits payable (Note 6)	2,382,038	2,230,316
Notes payable (Note 6)	4,965,181	6,223,596
Non-federal student loans (Note 6)	147,324	147,324
Total noncurrent liabilities	7,494,543	8,601,236
Total liabilities	39,790,903	42,254,913
Net Assets		
Invested in capital assets	86,995,041	87,466,044
Restricted expendable	-	132,149
Unrestricted	9,693,004	18,598,409
Total net assets	96,688,045	106,196,602
Total liabilities and net assets	<u>\$ 136,478,948</u>	<u>\$ 148,451,515</u>

Owens State Community College

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2012	2011
Revenue		
Operating revenue:		
Student tuition and fees - Net of scholarship allowances of \$23,216,068 (2012) and \$26,142,327 (2011)	\$ 27,920,158	\$ 30,204,904
Grants - Federal, state, and local	4,238,630	4,809,309
Sales and services	212,925	303,108
Auxiliary enterprises - Net of scholarship allowances of \$723,706 (2012) and \$686,002 (2011)	11,491,639	12,323,542
Other operating revenue	<u>772,111</u>	<u>650,216</u>
Total operating revenue	44,635,463	48,291,079
Operating expenses:		
Educational and general:		
Salaries, wages, and benefits	74,601,278	79,299,952
Supplies	3,416,959	3,776,266
Travel, entertainment, and professional development	1,278,437	1,377,185
Information and communication	5,283,983	5,356,857
Occupancy	3,665,114	3,728,488
Cost of goods sold	8,920,558	9,365,986
Outside services	8,259,836	9,055,490
Scholarships and other student aid	12,858,831	15,526,791
Allowance for doubtful accounts	2,002,431	1,200,100
Depreciation	5,229,745	4,603,094
Other	<u>444,286</u>	<u>510,793</u>
Total operating expenses	<u>125,961,458</u>	<u>133,801,002</u>
Operating Loss	(81,325,995)	(85,509,923)
Nonoperating Revenue		
State appropriations	36,911,421	35,823,815
Federal stabilization funds (ARRA)	-	6,112,380
Investment income	249,365	623,649
Interest expense	(196,522)	(215,472)
Pell grants	<u>34,748,942</u>	<u>39,984,218</u>
Net nonoperating revenue	<u>71,713,206</u>	<u>82,328,590</u>
Loss Before Other Revenue	(9,612,789)	(3,181,333)
Other Revenue		
Capital appropriations	94,232	1,894,794
Capital grants	<u>10,000</u>	<u>30,000</u>
Total other revenue	<u>104,232</u>	<u>1,924,794</u>
Decrease in Net Assets	(9,508,557)	(1,256,539)
Net Assets		
Beginning of year	<u>106,196,602</u>	<u>107,453,141</u>
End of year	<u>\$ 96,688,045</u>	<u>\$ 106,196,602</u>

Owens State Community College

Statement of Cash Flows

	Year Ended June 30	
	2012	2011
Cash Flows from Operating Activities		
Student tuition and fees	\$ 27,184,571	\$ 27,004,313
Grants - Federal, state, and local	6,733,151	2,949,306
Payments to employees, suppliers, students, and others	(119,911,372)	(128,393,383)
Auxiliary enterprises	11,389,302	12,264,539
Sales and services	523,494	80,546
Other receipts	732,359	662,704
Net cash used in operating activities	(73,348,495)	(85,431,975)
Cash Flows from Noncapital Financing Activities		
Pell grant	34,748,942	39,984,218
State appropriations	36,911,421	41,936,195
Agency transactions	135,299	(30,399)
Net cash provided by noncapital financing activities	71,795,662	81,890,014
Cash Flows from Capital and Related Financing Activities		
Proceeds from notes payable	51,696	2,305,477
Principal payments on notes payable	(1,255,535)	(1,245,371)
Capital appropriations and grants	104,232	1,924,794
Interest paid on notes payable	(196,522)	(215,472)
Purchases of capital assets	(3,706,223)	(10,806,956)
Net cash used in capital and related financing activities	(5,002,352)	(8,037,528)
Cash Flows from Investing Activities		
Interest on investments	321,020	623,649
Purchase of investments	(4,519,606)	(30,057,459)
Proceeds from sale and maturity of investments	10,932,146	27,649,832
Net cash provided by (used in) investing activities	6,733,560	(1,783,978)
Net Increase (Decrease) in Cash and Cash Equivalents	178,375	(13,363,467)
Cash and Cash Equivalents - Beginning of year	5,372,614	18,736,081
Cash and Cash Equivalents - End of year	\$ 5,550,989	\$ 5,372,614

Owens State Community College

Statement of Cash Flows (Continued)

	Year Ended June 30	
	2012	2011
Reconciliation of operating loss to net cash from operating activities:		
Operating loss	\$ (81,325,995)	\$ (85,509,923)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	5,229,745	4,603,094
Changes in assets and liabilities:		
Receivables - Net	1,303,637	2,020,039
Inventories	81,127	(19,508)
Prepaid expenses and deferred charges	2,340,493	(276,359)
Notes receivable - Net	(1,000)	(500)
Accounts payable	(200,965)	(2,031,544)
Salaries, wages, and benefits payable	(1,347,020)	1,932,336
Deferred revenue	571,483	(6,149,610)
Net cash used in operating activities	<u>\$(73,348,495)</u>	<u>\$(85,431,975)</u>

Owens State Community College

Balance Sheet Discretely Presented Component Unit - Foundation

	June 30	
	2012	2011
Assets		
Cash and cash equivalents	\$ 717,608	\$ 586,505
Investments (Note 3)	1,978,296	2,082,719
Pledges receivable	94,868	9,615
Accounts receivable	3,110	9,664
Total assets	<u>\$ 2,793,882</u>	<u>\$ 2,688,503</u>
Liabilities and Net Assets		
Liabilities		
Due to Owens State Community College	\$ 96,499	\$ 56,747
Accounts Payable	1,175	
Funds in custody (agency funds)	56,425	44,163
Total liabilities	154,099	100,910
Net Assets		
Unrestricted	190,173	218,530
Temporarily restricted	978,480	1,084,851
Permanently restricted	1,471,130	1,284,212
Total net assets	<u>2,639,783</u>	<u>2,587,593</u>
Total liabilities and net assets	<u>\$ 2,793,882</u>	<u>\$ 2,688,503</u>

Owens State Community College

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

	Year Ended June 30	
	2012	2011
Revenue and Support		
Donations received	\$ 323,843	\$ 297,417
Investment income:		
Interest and dividend income	47,952	40,677
Unrealized (loss) gain on investments	(132,621)	319,605
Realized gain on investments	85,739	14,355
Grant revenue	<u>302,014</u>	<u>127,500</u>
Total revenue and support	626,927	799,554
Expenses		
Program services:		
Scholarships	185,738	196,258
Capital/Equipment grant	20,195	30,000
Outside grants expense	302,014	127,500
Other program services	<u>30,074</u>	<u>48,724</u>
Total program services	538,021	402,482
Management and general	22,694	41,754
Fundraising	<u>14,022</u>	<u>14,394</u>
Total expenses	<u>574,737</u>	<u>458,630</u>
Increase in Net Assets	52,190	340,924
Net Assets - Beginning of year	<u>2,587,593</u>	<u>2,246,669</u>
Net Assets - End of year	<u>\$ 2,639,783</u>	<u>\$ 2,587,593</u>

Owens State Community College

Notes to Financial Statements June 30, 2012 and 2011

NOTE I - ORGANIZATION, BASIS OF PRESENTATION, AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

Owens State Community College (the "College") was created pursuant to Section 3357 of the Ohio Revised Code. In November 1994, the Ohio Board of Regents approved changing the status of the College from a technical college to a community college, pursuant to Section 3358 of the Ohio Revised Code. 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 and is discretely presented in the State of Ohio's Comprehensive Annual Financial Report.

The College is classified as a state instrumentality under Internal Revenue Code Section 115, and is also classified as a charitable organization under Internal Revenue Code Section 501(c)(3), and is therefore exempt from federal income taxes. Certain activities of the College may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 through 514.

The College is governed by a board of trustees, who are responsible for oversight of academic programs, budgets, general administration, and employment of faculty and staff. The College is currently governed by a nine voting member board of trustees. The trustees are appointed by the governor with the advice and consent of the State Senate for overlapping six-year terms.

BASIS OF PRESENTATION

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States as prescribed by the GASB. The College is a public institution engaged in business-type activities. In accordance with GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, the University presents a management's discussion and analysis; statement of net assets; statement of revenue, expenses, and changes in net assets; statement of cash flows; and notes to the financial statements.

The College follows all GASB pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board (APB) opinions and accounting research bulletins of the committee on accounting procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The College has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

Owens State Community College

Notes to Financial Statements June 30, 2012 and 2011

In the determination of whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted nets assets are available, it is the College's practice to use restricted first.

Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, requires the College to reflect the Foundation as a discretely presented component unit in the financial statements based on the significance of the relationships with the University. The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board (FASB) standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundations' financial information in the College's financial reporting entity for these differences.

The Foundation is a legally separate, tax-exempt entity that acts primarily as a fundraising organization to supplement the resources available to the College in support of its programs. The Foundation transferred \$531,721 and \$392,482 during fiscal years 2012 and 2011, respectively, to the College for both restricted and unrestricted purposes in support of its programs.

SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and demand deposits with banks. All investments with maturities less than 90 days are considered cash and cash equivalents.

Investments

Investments include publicly traded securities reported at fair market value as of the end of the fiscal year; any change in the unrealized gain (loss) during the fiscal year is included in investment income in the statement of revenue, expenses, and changes in net assets.

Accounts Receivable

Accounts receivable are for transactions relating to tuition and fees, auxiliary enterprise sales, grants and contracts, and miscellaneous sales and services. Accounts receivable are recorded net of contractual allowances and allowances for uncollectible accounts based on historical analysis.

Owens State Community College

Notes to Financial Statements June 30, 2012 and 2011

Inventories

Inventories are stated at the lower of cost or market (net realizable value) using the first-in, first-out (FIFO) method.

Capital Assets

Capital assets are stated at historical cost or fair value at date of donation in the case of gifts. When capital assets are sold or otherwise disposed of, the carrying value of such assets is removed from the asset accounts, along with the related accumulated depreciation. Depreciation has been recorded in accordance with the GASB.

Deferred Revenue

Deferred revenue includes tuition and fees for summer and fall terms recorded in the current fiscal year but related to the subsequent accounting period, and related expenses are shown as prepaid expenses in the statement of net assets and will be recognized in the following year. Additionally, deferred revenue includes amounts received from grant and contract sponsors that have not yet been earned.

Net Assets

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

Invested in capital assets, net of related debt: Includes capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement in those assets.

Restricted: Nets assets subject to externally imposed constraints so that they may be maintained permanently by the College, or 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. Restricted net assets are classified further as nonexpendable and expendable. Nonexpendable restricted net assets are available for investment purposes only and cannot be expended. Expendable restricted net assets are available for expenditure by the College, but must be spent for purposes as determined by donors or external entities that have placed time or purpose restrictions on the use of the assets.

Owens State Community College

Notes to Financial Statements June 30, 2012 and 2011

Unrestricted: Net assets available to the College for any lawful purpose of the institution. Unrestricted net assets may be designated for specific purposes by action of management or the board of trustees or may otherwise be limited by contractual agreements with outside parties. The College has committed unrestricted net assets to provide for identified future needs, such as debt service, contractual obligations, capital outlay, academic programming, and post-employment benefits.

Operating and Nonoperating Revenue

The College's policy for defining operating activities as reported on the statement of revenue, 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 of the College's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenue as defined by GASB Statement No. 34, including State appropriations and investment income. Guidance on GASB Statement No. 34 has resulted in the classification of Pell grant revenue as nonoperating revenue. Restricted and unrestricted resources are spent and tracked at the discretion of the College's department within the guidelines of donor restrictions, if any.

Compensated Absences

College employees earn vacation and sick leave based, in part, on length of service. Vacation pay is fully vested when earned. Upon separation from service, employees are paid accumulated vacation and sick pay based upon the nature of separation (death, retirement, or termination). Certain limitations have been placed on the hours of vacation and sick leave that employees may accumulate and carry over for payment at termination, retirement, or death. Unused hours exceeding their limitation are forfeited. The liability and expense incurred are recorded at year-end as long-term and short-term liabilities in the statement of net assets, and as a component of operating expense in the statement of revenue, expenses, and changes in net assets.

State Subsidies

The College receives student-based subsidy and other subsidies from the State. These subsidies are determined biennially and released annually based upon allocations determined by the Ohio General Assembly and the Ohio Board of Regents.

In addition to subsidies, the State provides capital appropriations for construction of major plant facilities on the campus. The financing of construction is obtained by the State through issuance of State revenue bonds. State funds are pledged for the repayment of the revenue bonds. In the event these funds are insufficient to retire the revenue bonds, a pledge exists to assess a special student fee to students of State-assisted institutions of higher education. As a result of this financing arrangement, the outstanding debt relating to the revenue bonds is not included in the College's statement of net assets. State appropriations are recognized when received. Restricted funds are recognized as revenue only to the extent expended.

Owens State Community College

Notes to Financial Statements June 30, 2012 and 2011

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Student Tuition and Fees

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

Auxiliary Revenue

Auxiliary revenue represents revenue generated by the bookstore, dining services and other departmental activities that provide services to the student body, faculty and staff.

Upcoming Accounting Pronouncements

Reporting Entity Standards: In December 2010, the GASB issued Statement Number 61, *Financial Reporting Entity: Omnibus*. This standard is intended to improve the information presented about the financial reporting entity, which is made up of the College financial reporting entity and related entities (component units). The statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criteria, a financial benefit or burden relationship is also needed between the College and that organization for it to be included in the reporting entity as a component unit. The statement also modifies the criteria for reporting component units as if they were part of the College (i.e., blending). Blending should be used when the College and the component unit have a financial benefit or burden relationship, or management has operational responsibility for the component units. Additionally, for equity interests in legally separate organizations, the entity is required to report its interest as "restricted net assets - nonspendable." This standard is effective for financial statements for reporting periods beginning after June 15, 2012; however, earlier application is encouraged.

Owens State Community College

Notes to Financial Statements June 30, 2012 and 2011

Private Sector Accounting Rules: In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This changes the requirement for the College to apply any private sector accounting guidance that existed as of November 30, 1989 and instead incorporates all such guidance in this statement. The College will no longer have the ability to choose to continue to follow FASB statements written after that date, although such guidance still qualifies as “other accounting literature” in the GAAP hierarchy. This pronouncement must be applied for years that begin after December 15, 2011.

Deferred inflows/outflows and Net Position: In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This standard provides financial reporting guidance for deferred inflows and outflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the College that is applicable to a future reporting period and an acquisition of net assets by the College that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The standard also incorporates deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and renames that measure as net position, rather than net assets. The provisions for this standard are effective for financial statements for periods beginning after December 15, 2011.

Accounting and Financial Reporting for Pensions: In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The College is currently evaluating the impact this standard will have on the financial statements when adopted. The total pension liability will be computed on a different basis than the current actuarial accrued liability and the method of allocating this liability to each participating employer has not yet been determined, so the precise impact is not known. The provisions of the statement are effective for financial statements for periods beginning after June 30, 2014.

Owens State Community College

Notes to Financial Statements June 30, 2012 and 2011

NOTE 2 - CASH AND CASH EQUIVALENTS

At June 30, 2012, the carrying amount of the College's cash and cash equivalents for all funds is \$5,550,989, as compared to bank balances of \$6,448,746. The differences in carrying amount and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, \$538,000 is covered by federal deposit insurance. This reflects a temporary increase in the basic limit on federal deposit insurance coverage from \$100,000 to \$250,000 per depositor originally set to expire December 31, 2009 and since extended through December 31, 2012. The remaining balances of cash and cash equivalents are collateralized by the depository institution per Ohio Revised Code 135.181B, which requires that the total market value of the securities so pledged is at least equal to 105 percent of the total amount of all public deposits.

At June 30, 2011, the carrying amount of the College's cash and cash equivalents for all funds is \$5,372,614, as compared to bank balances of \$6,065,624. The differences in carrying amount and bank balances are caused by outstanding checks and deposits in transit. Of the bank balances, \$967,000 is covered by federal deposit insurance. This reflects a temporary increase in the basic limit on federal deposit insurance coverage from \$100,000 to \$250,000 per depositor originally set to expire December 31, 2009 and since extended through December 31, 2012. The remaining balances of cash and cash equivalents are collateralized by the depository institution per Ohio Revised Code 135.181B, which requires that the total market value of the securities so pledged is at least equal to 105 percent of the total amount of all public deposits.

NOTE 3 - INVESTMENTS

Investments at June 30, 2012 and 2011 consist of investments in STAR Ohio of \$132,413 and \$132,355, respectively. GASB Statement No. 3 does not require STAR Ohio's assets to be categorized. Also included in investments are Freddie Mac, Fannie Mae, FHLB notes, Ginnie Mae and U.S. Treasury Bills with market value at June 30, 2012 and 2011 of \$6,784,005 and \$14,268,382, respectively. Investments also include long-term certificates of deposit with a market value at June 30, 2012 and 2011 of \$1,495,617 and \$744,858, respectively.

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, 2012 and 2011.

Substantially all of the College's investments have maturities of less than one year. As a result, the interest rate risk is not considered significant.

Owens State Community College

Notes to Financial Statements June 30, 2012 and 2011

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. At June 30, 2012, 26.3 percent of the College's investments were invested in Federal National Mortgage Association securities, 37.7 percent in Federal Home Loan Mortgage securities and 16.6 percent in Federal Home Loan Bank securities with the remaining 19.4 percent in certificates of deposit and STAR Ohio. At June 30, 2011, 41 percent of the College's investments were invested in Federal National Mortgage Association securities, 20 percent in Federal Home Loan Mortgage securities, 24 percent in Government National Mortgage Association and 10 percent in U.S. Treasury Bill with the remaining 5 percent in certificates of deposit and STAR Ohio. All investments were rated AAA by Moody's at June 30, 2012 and 2011.

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:

	2012	2011
Bond mutual fund	\$ 480,312	\$ 376,619
Equity mutual fund	418,582	1,706,060
Common Stock	1,079,362	
Other	40	40
Total	<u>\$ 1,978,296</u>	<u>\$ 2,082,719</u>

NOTE 4 - ACCOUNTS AND LOANS RECEIVABLE

The composition of accounts receivable at June 30, 2012 and 2011 is summarized as follows:

	2012	2011
Student receivables for fees and auxiliary services	\$ 24,219,863	\$ 24,912,305
Allowance for doubtful accounts	(2,302,523)	(2,267,937)
Grants - Federal, state, and local	581,735	1,012,710
Capital appropriations	46,500	12,490
Interest receivable	9,766	17,736
Other	622,486	852,196
Total	<u>\$ 23,177,827</u>	<u>\$ 24,539,500</u>

Owens State Community College

Notes to Financial Statements June 30, 2012 and 2011

NOTE 5 - CAPITAL ASSETS

Capital assets consist of the following as of June 30, 2012:

2012	Balance June 30, 2011	Additions	Retirements/ Transfers	Balance June 30, 2012
Nondepreciated capital assets:				
Land	\$ 10,744,583	\$ -	\$ -	\$ 10,744,583
Construction in progress	3,018,920	177,648	(3,018,920)	177,648
Total nondepreciated capital assets	13,763,503	177,648	(3,018,920)	10,922,231
Depreciable capital assets:				
Land improvements	25,346,127	267,533	2,201,798	27,815,458
Buildings and improvements	105,267,484	690,441	558,456	106,516,381
Equipment	24,372,188	2,476,268	(406,922)	26,441,534
Total other capital assets	154,985,799	3,434,242	2,353,332	160,773,373
Less: Accumulated Depreciation	(73,805,804)	(5,229,745)	608,601	(78,426,948)
Total Depreciable Assets, net	81,179,995	(1,795,503)	2,961,933	82,346,425
Capital Assets, net	<u>\$ 94,943,498</u>	<u>(1,617,855)</u>	<u>(56,987)</u>	<u>\$ 93,268,656</u>

The College has active construction projects resulting in total commitments to vendors of approximately \$28,000 at June 30, 2012.

Capital assets consist of the following as of June 30, 2011:

	Balance June 30, 2010	Additions	Retirements/ Transfers	Balance June 30, 2011
Nondepreciated capital assets:				
Land	\$ 10,744,583	\$ -	\$ -	\$ 10,744,583
Construction in progress	7,157,941	3,018,920	(7,157,941)	3,018,920
Total nondepreciated capital assets	17,902,524	3,018,920	(7,157,941)	13,763,503
Depreciable capital assets:				
Land improvements	19,466,960	3,117,216	2,761,951	25,346,127
Buildings and improvements	97,785,734	3,085,760	4,395,990	105,267,484
Equipment	22,671,302	1,700,886	-	24,372,188
Total depreciable capital assets	139,923,996	7,903,862	7,157,941	154,985,799
Less accumulated depreciation	(69,202,710)	(4,603,094)	-	(73,805,804)
Total depreciable assets - Net	70,721,286	3,300,768	7,157,941	81,179,995
Capital assets - Net	<u>\$ 88,623,810</u>	<u>\$ 6,319,688</u>	<u>\$ -</u>	<u>\$ 94,943,498</u>

Owens State Community College

Notes to Financial Statements June 30, 2012 and 2011

Assets are capitalized with a cost of \$50,000 or greater for buildings and land improvement, \$20,000 or greater for building improvements and infrastructure and \$5,000 or greater for library books and equipment. Depreciation and amortization are recognized on a straight-line basis over the estimated useful life of the asset, as follows:

Land improvements	5 to 20 years
Buildings	40 years
Building improvements	10 to 20 years
Equipment	3 to 10 years

NOTE 6 - DEBT

In February 2012, the College entered into a lease agreement for equipment totaling \$51,696 with an interest rate of 8.4 percent and a maturity date of August 2015.

In October 2010, the College entered into a lease agreement for information technology infrastructure upgrade, including two telepresence systems, hardware equipment and software totaling \$2,238,848 with interest at 3 percent and a maturity date of October 2014. In November 2010, the College entered into an agreement for three vehicles totaling \$66,629 with interest at 4.67 percent and a maturity date of December 2013.

In March 2010, the College entered into a loan agreement with the Ohio Air Quality Development Authority (Authority) totaling \$6,250,000 to finance energy conservation measures, facility improvement measures and operational efficiency improvements. The Authority financed the loan through Series A and B general receipts bonds for \$3,125,000 each, which bear interest rates of 3.48 percent and 6.024 percent, respectively, and are passed onto the College through the loan. The maturity dates for Series A and Series B are March 15, 2015 and March 15, 2019, respectively.

In January 2008, the College entered into two separate lease agreements totaling \$338,885 for equipment with interest at 4.7 percent and 5.2 percent. The lease agreements mature on February 28, 2011 and December 31, 2013.

Owens State Community College

Notes to Financial Statements June 30, 2012 and 2011

Long-term liabilities consist of the following for the years ended June 30, 2012 and 2011:

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012	Amount Due Within One Year
Compensated absences	\$ 2,509,977	\$ -	\$ 2,570	\$ 2,507,407	\$ 125,369
Notes and leases payable	7,477,454	51,696	1,255,535	6,273,615	1,308,434
Non-federal student loans	147,324	-	-	147,324	-

	Balance June 30, 2010	Increases	Decreases	Balance June 30, 2011	Amount Due Within One Year
Compensated absences	\$ 2,886,324	\$ -	\$ 376,347	\$ 2,509,977	\$ 279,661
Notes and leases payable	6,417,348	2,305,477	1,245,371	7,477,454	1,253,858
Non-federal student loans	147,324	-	-	147,324	-

Schedule of maturities for the notes payable are as follows:

	Principal	Interest	Total
2013	\$ 710,000	\$ 123,020	\$ 833,020
2014	736,000	98,313	834,313
2015	761,000	70,638	831,638
2016	782,000	48,877	830,877
2017	797,000	33,555	830,555
2018 - 2019	1,123,000	22,469	1,145,469
Total	\$4,909,000	\$396,872	\$5,305,872

Schedule of maturities for the lease payables are as follows:

	Principal	Interest	Total
2013	\$ 598,434	\$ 38,393	\$ 636,827
2014	605,043	18,395	623,438
2015	157,829	2,223	160,052
2016	3,309	45	3,354
Total	\$1,364,615	\$59,056	\$1,423,671

Assets under capital leases are recorded in capital assets with cost of \$2,589,745 and \$2,533,049 and accumulated depreciation of \$472,039 and \$195,078 at June 30, 2012 and 2011, respectively.

Owens State Community College

Notes to Financial Statements June 30, 2012 and 2011

NOTE 7 - RETIREMENT BENEFITS

College employees are covered by one of two retirement systems. The College faculty is covered by the State Teachers Retirement System of Ohio (STRS). Other employees are covered by the State Employees Retirement System of Ohio (SERS). These plans are statewide, multi-employer, cost sharing defined benefit plans. Employees may opt out of STRS or SERS and participate in the alternative retirement plan (ARP) if they meet certain eligibility requirements.

A retiree of STRS or SERS is eligible for re-employment following the elapse of two months from the date of retirement. Contributions are made by the re-employed member and employer during the re-employment. Upon termination of re-employment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance. Effective April 11, 2005, a re-employed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

State Employees Retirement System of Ohio

SERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code (ORC).

The 2012 and 2011 member contribution rates were 10 percent for members in state and local classifications. The 2012 and 2011 employer contribution rate for state employees was 14 percent of covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS's Retirement Board. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year ended June 30, 2012, the allocation to pension and death benefits is 12.7 percent. The remaining 1.3 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Funds. Total required employer contributions for all plans are equal to 100 percent of employer charges and should be extracted from the employer's records.

The College's total employer contributions to SERS for the years ended June 30, 2012, 2011, and 2010 were \$2,946,868, \$2,970,055, and \$2,865,926, respectively.

State Teachers Retirement System of Ohio

STRS is a statewide retirement plan for licensed teachers and other faculty members and provides a choice of three retirement plan options.

Owens State Community College

Notes to Financial Statements June 30, 2012 and 2011

Defined Benefit Plan (DB Plan) - Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The maximum annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money-purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest salary years. The annual allowance is determined by multiplying final average salary by 2.2 percent for the first 30 years of credited service.

Each year over 30 years is incrementally increased by .1 percent, starting at 2.5 percent for the 31st year of contributing service up to a maximum allowance of 100 percent of final average salary. Upon reaching 35 years of Ohio service, the first 31 years of Ohio contributing service is multiplied by 2.5 percent, and each year over 31 years is incrementally increased by .1 percent starting at 2.6 percent for the 32nd year. Members retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit amounts. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from contributed employer funds. This total is then divided by an actuarially determined annuity factor to compute the maximum annual retirement allowance. Since the plan is tax-qualified, benefits are subject to limits established by Section 415 of the Internal Revenue Code. Benefits are increased annually by 3 percent of the original based amount.

Defined Contribution Plan (DC Plan) - Benefits are established under Sections 3307.80 to 3307.89 of the ORC. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5 percent are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. The remaining 3.5 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. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Combined Plan - Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1 percent of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity.

Owens State Community College

Notes to Financial Statements June 30, 2012 and 2011

A DB or Combined Plan member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

The ORC provides statutory authority for employee and employer contributions. During 2012 and 2011, STRS employees contributed 10 percent of their salary to the plan and the College contributed 14 percent of covered payrolls to the plan. The College's total employer contributions to STRS for the years ended June 30, 2012, 2011 and 2010 were \$4,436,854, \$4,852,699 and \$4,709,104, respectively.

Alternative Retirement Plan

Ohio Amended Substitute House Bill 586 (Ohio Revised Code 3305.2) became effective March 31, 1998, authorizing an alternative retirement plan (ARP) for academic and administrative College employees of public institutions of higher education who are currently covered by the State Teachers Retirement System or Public Employees Retirement System. The College board of trustees adopted such a plan effective April 1999.

Eligible employees (those who are full-time and salaried) have 120 days from their date of hire to make an irrevocable election to participate in the alternate retirement plan. Under this plan, employees who would have otherwise been required to be in STRS and who elect to participate in the alternate retirement plan must contribute their share of retirement contributions (10 percent STRS) to one of eight private providers approved by the State Department of Insurance. For employees who elect an ARP, employers are required to remit employer contributions to STRS Ohio at a rate of 3.5 percent. The employer contribution is the lower of a rate determined by an independent actuarial study or the portion of the STRS Ohio DC Plan employer contribution rate that is allocated to the defined benefit unfunded liability. The College plan provides these employees with immediate plan vesting.

The ARP is a defined contribution plan under IRS Section 401(a). The College's total employer contribution to the ARP for the years ended June 30, 2012, 2011 and 2010 were \$198,805, \$215,029, and \$188,483, respectively.

NOTE 8 - OTHER POSTEMPLOYMENT 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 health care through employer contributions to SERS and STRS.

Owens State Community College

Notes to Financial Statements June 30, 2012 and 2011

SERS provides postretirement healthcare coverage to age-and-service retirees with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. 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 healthcare 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 percent 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 2011 and 2010 employer contribution rate for state employers was 14 percent of covered payroll; 1.3 percent was the portion that was used to fund healthcare. In addition, SERS levies a surcharge to fund healthcare benefits equal to 14 percent of the difference between a minimum pay and the member's pay, prorated for partial service credit. For fiscal 2012, 2011 and 2010, the minimum pay was established as \$35,800.

OPEBs 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, 2011, expenditures for OPEBs as a whole for SERS were \$221.2 million. The number of eligible benefit recipients for SERS was 48,151.

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 percent of covered payroll. The STRS board currently allocates employer contributions equal to 1.0 percent 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 \$3.2 billion at June 30, 2011.

For the year ended June 30, 2011, the net healthcare costs paid by the STRS system as a whole were \$382.3 million. There were 138,088 eligible benefit recipients.

Owens State Community College

Notes to Financial Statements June 30, 2012 and 2011

NOTE 9 - 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, 2012 and 2011 were \$2,793,882 and \$2,688,503, respectively. The College received \$531,721 and \$392,482 from the Foundation in 2012 and 2011, respectively. The Foundation owed the College \$96,499 and \$56,747 as of June 30, 2012 and 2011, respectively. Complete financial statements for the Foundation can be obtained from Owens State Community College, 30335 Oregon Road, Perrysburg, OH 43551.

The following is a summary of the Foundation's significant accounting and reporting policies presented to assist the reader in interpreting the financial statements and other data in this report.

Investments: The following tables represent information about the Foundation's assets measured at fair value on a recurring basis at June 30, 2012 and 2011 and the valuation techniques used by the Foundation to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Foundation has the ability to access. Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Foundation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Owens State Community College

Notes to Financial Statements June 30, 2012 and 2011

Disclosures concerning assets measured at fair value are as follows:

Fair Value Measurements at June 30, 2012

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2012
Mutual funds:				
Equity investments	\$ 418,582	\$ -	\$ -	\$ 418,582
Fixed income investments	480,312	-	-	480,312
Total mutual funds	898,894	-	-	898,894
Common stock:				
Basic industry	71,679	-	-	71,679
Capital goods	97,966	-	-	97,966
Consumer cyclical	109,539	-	-	109,539
Consumer staples	327,193	-	-	327,193
Energy/Utilities	158,326	-	-	158,326
Financial	129,146	-	-	129,146
Technology	185,513	-	-	185,513
Total common stock	1,079,362	-	-	1,079,362
Money market mutual funds	468,411	-	-	468,411

Owens State Community College

Notes to Financial Statements June 30, 2012 and 2011

Fair Value Measurements at June 30, 2011

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant		Balance at June 30, 2011
		Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Equity funds:				
Buffalo Small-cap	\$ 135,806	\$ -	\$ -	\$ 135,806
Fairholme Fund	142,993	-	-	142,993
Fidelity Contrafund	144,725	-	-	144,725
Jensen Portfolio	146,480	-	-	146,480
Vanguard Institutional Index	663,065	-	-	663,065
Dodge & Cox International Stock	157,998	-	-	157,998
Harbor International	73,995	-	-	73,995
MFS International New Discovery	83,317	-	-	83,317
T. Rowe Price Intl New Asia	61,168	-	-	61,168
T. Rowe Price Latin American Fund	57,664	-	-	57,664
Third Avenue Value	38,849	-	-	38,849
Total equity funds	1,706,060	-	-	1,706,060
Bond funds:				
Harbor Bond Fund	87,990	-	-	87,990
Vanguard Intermediate Bond Index	156,858	-	-	156,858
Vanguard Short-term Federal	131,771	-	-	131,771
Total bond funds	376,619	-	-	376,619
Money market mutual funds:				
Farmers & Merchant MM Savings	129,856	-	-	129,856
Northern Inst'l Prime Obligations	27,695	-	-	27,695
Trust Company of Toledo	202,107	-	-	202,107
Total money market mutual funds	359,658	-	-	359,658

The Foundation's policy is to recognize transfers between levels of the fair value hierarchy as of the end of the reporting period. For the years ended June 30, 2012 and 2011, there were no transfers between levels of the fair value hierarchy.

Owens State Community College

Notes to Financial Statements June 30, 2012 and 2011

Restrictions and Limitations on Net Asset Balances: The Foundation's temporarily restricted net assets are available for the following purposes:

	<u>2012</u>	<u>2011</u>
Gifts and other donations available for:		
Library	\$ 33,968	\$ 32,593
Equipment and other program expenses	381,406	405,596
Scholarships	<u>563,106</u>	<u>646,662</u>
Total gifts and other donations	<u>\$ 978,480</u>	<u>\$ 1,084,851</u>

Foundation net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by the donors as follows:

	<u>2012</u>	<u>2011</u>
Equipment and other program expenses	\$ 39,768	\$ 70,224
Scholarships	<u>182,905</u>	<u>189,041</u>
Total	<u>\$ 222,673</u>	<u>\$ 259,265</u>

The Foundation's permanently restricted net assets consist of endowment funds. In certain cases, the donors of these funds have restricted the use of the income from such funds for scholarships. These expenses are reflected in the appropriate program services category on the statement of activities and changes in net assets. Permanently restricted net assets are available for the following purposes:

	<u>2012</u>	<u>2011</u>
Equipment and other program expenses	\$ 298,285	\$ 298,285
Scholarships	<u>1,172,845</u>	<u>985,927</u>
Total	<u>\$ 1,471,130</u>	<u>\$ 1,284,212</u>

Donor- and Board-restricted Endowments: The Foundation's endowment includes both donor-restricted endowment funds and funds designated by the board of directors to function as endowments. Net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Owens State Community College

Notes to Financial Statements June 30, 2012 and 2011

The board of directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the historical value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Foundation and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation

Endowment Net Asset Composition by Type of Fund as of June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment	\$ -	\$ 356,852	\$ 1,471,130	\$ 1,827,982
(Quasi) Endowment	<u>15,794</u>	<u>-</u>	<u>-</u>	<u>15,794</u>
Total funds	<u>\$ 15,794</u>	<u>\$ 356,852</u>	<u>\$ 1,471,130</u>	<u>\$ 1,843,776</u>

Owens State Community College

Notes to Financial Statements June 30, 2012 and 2011

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets -				
Beginning of the year	\$ 15,795	\$ 413,583	\$ 1,284,212	\$ 1,713,590
Investment return:				
Investment income	925	99,619	1,468	102,012
Net depreciation	(926)	(99,689)	(226)	(100,841)
Total investment return	(1)	(70)	1,242	1,171
Contributions	-	4,322	185,676	189,998
Appropriation of endowment assets for expenditures	-	(39,959)	-	(39,959)
Administrative Fees	-	(5,184)	-	(5,184)
Other changes -				
Transfers to other temporarily restricted funds	-	(15,840)	-	(15,840)
Endowment net assets -				
End of the year	<u>\$ 15,794</u>	<u>\$ 356,852</u>	<u>\$ 1,471,130</u>	<u>\$ 1,843,776</u>

Endowment Net Asset Composition by Type of Fund as of June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment	\$ -	\$ 413,583	\$ 1,284,212	\$ 1,697,795
(Quasi) Endowment	<u>15,795</u>	<u>-</u>	<u>-</u>	<u>15,795</u>
Total funds	<u>\$ 15,795</u>	<u>\$ 413,583</u>	<u>\$ 1,284,212</u>	<u>\$ 1,713,590</u>

Owens State Community College

Notes to Financial Statements June 30, 2012 and 2011

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets -				
Beginning of the year	\$ (5,167)	\$ 221,855	\$ 1,199,535	\$ 1,416,223
Investment return:				
Investment income	1,545	39,704	810	42,059
Net appreciation	<u>20,182</u>	<u>220,931</u>	<u>515</u>	<u>241,628</u>
Total investment return	21,727	260,635	1,325	283,687
Contributions	-	2,781	83,352	86,133
Appropriation of endowment assets for expenditures	(765)	(40,952)	-	(41,717)
Other changes -				
Transfers to other temporarily restricted funds	<u>-</u>	<u>(30,736)</u>	<u>-</u>	<u>(30,736)</u>
Endowment net assets -				
End of the year	<u>\$ 15,795</u>	<u>\$ 413,583</u>	<u>\$ 1,284,212</u>	<u>\$ 1,713,590</u>

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Foundation's spending policy stipulates that 3 percent to 6 percent of a three-year moving average of the value of the endowment is available to spend and the remaining income is to be reinvested. If an investment loss is realized, the loss is allocated entirely as currently expendable. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of CPI annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Owens State Community College

Notes to Financial Statements June 30, 2012 and 2011

NOTE 10 - 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 those 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. Stop loss per individual is \$150,000. 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 is self-insured for workers' compensation with aggregate stop-loss coverage of \$350,000.

NOTE 11 - FUNCTIONAL CLASSIFICATION OF EXPENSES

Operating expenses by functional classification for the years ended June 30 are summarized as follows:

	Year Ended June 30	
	2012	2011
Instructional and departmental research	\$ 49,338,060	\$ 53,007,456
Institutional research	373,593	360,375
Public service	3,212,777	3,135,758
Academic support	5,042,536	4,978,410
Student services	10,974,933	10,753,804
Institutional support	17,228,943	19,696,065
Operation and maintenance of plant	9,725,668	9,712,049
Scholarships and other student aid	13,180,117	15,356,278
Depreciation	5,229,745	4,603,094
Auxiliary enterprises - Net of scholarship allowances	11,655,086	12,197,713
Total operating expenses	\$ 125,961,458	\$ 133,801,002

Supplemental Information

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

Independent Auditor's Report

To the Board of Trustees
Owens Community College

We have audited the financial statements of Owens Community College (the "College") and its discretely presented component unit as of and for the year ended June 30, 2012, which collectively comprise the College's basic financial statements, and have issued our report thereon dated October 12, 2012. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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.

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

To the Board of Trustees
Owens Community College

Compliance and Other Matters

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

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

Plante & Moran, PLLC

October 12, 2012

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

Independent Auditor's Report

To the Board of Trustees
Owens Community College

Compliance

We have audited the compliance of the Owens Community College (the "College") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The major federal programs of the Owens Community College are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Owens Community College's management. Our responsibility is to express an opinion on the Owens 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 Owens 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 Owens Community College's compliance with those requirements.

In our opinion, the Owens Community College complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

To the Board of Trustees
Owens Community College

Internal Control Over Compliance

The management of the Owens 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 Owens 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, 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 entity'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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

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

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

Plante & Moran, PLLC

October 12, 2012

Owens Community College

Schedule of Expenditures of Federal Awards Year Ended June 30, 2012

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. Department of Education - Direct			
Student Financial Assistance Cluster:			
Federal Supplemental Educational Opportunity Program	84.007	N/A	\$ 308,942
Federal Direct Loans	84.268	N/A	66,683,755
Federal Work-Study Program	84.033	N/A	603,278
Federal Pell Grant Program	84.063	N/A	<u>34,748,942</u>
Total Student Financial Assistance Cluster			<u>102,344,917</u>
U.S. Department of Transportation - Highway Safety Cluster -			
Passed through from the Ohio Department of Public Safety Motorcyclist Safety Grant	20.612	N/A	<u>2,881</u>
U.S. Department of Labor			
Employment and Training Administration			
Passed through from BioOhio - ARRA - Ohio Bioscience Industry Workforce Preparedness	17.275 Contract #	DOL6 GJ-20076-10-60-A-39	<u>53,044</u>
U. S. Department of Commerce			
Passed through Connected Nation and Connect Ohio ARRA - Broadband Technology Opportunities "Public Adoption through Libraries (OPAL II) Every Community Online"	11.257	N/A	<u>5,894</u>
Other Federal Awards			
U.S. Department of Education			
Title III-Higher Education Institutional Aid-Strengthening Institutions	84.031A	N/A	48,644
Passed through from the State of Ohio Board of Regents Vocational education (Perkins II)	84.048	VECPHII-P01	386,234
Passed through from the State of Ohio Board of Regents - Adult Basic and Literacy Education (ABLE) Grants:			
Adult Basic and Literacy Education	84.002	074864-AB-S1-12	476,526
Adult Basic and Literacy Education	84.002	074864-AB-SL-12	320,552
Adult Basic and Literacy Education - EL/Civics	84.002	074864-AB-S2-12	<u>66,914</u>
Total Adult Basic and Literacy Education Grants			<u>863,992</u>
Passed through from University of Toledo - Technical preparation	84.243	N/A	<u>19,350</u>
TOTAL U.S. Department of Education			<u>1,318,220</u>

Owens Community College

Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2012

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. Department of Health and Human Services			
Passed through from HMTRI / Kirkwood Community College NIEHS Hazardous Substances Basic Research & Education	93.143	5U45ES06177-09	\$ 4,997
Passed through from Ohio Board of Regents and OARNet Third Frontier Network support of Inter-institutional Collaboration	93.211	N/A	<u>11,325</u>
TOTAL U.S. Department of Health and Human Services			<u>16,322</u>
U.S. Department of Labor			
Employment and Training Administration			
Passed through from Cincinnati State Technical & Community College Trade Adjustment Assistance Community College & Career Training Grants - The Health Professions Pathways (H2P)	17.282	TC-22486-11-60-A-39	<u>230,797</u>
U.S. Department of State Bureau of Education and Cultural Affairs			
Passed through from Community Colleges for International Development:			
Community College Summit Initiative Program FY11	19.009	N/A	2,425
Community College Summit Initiative Program FY12	19.009	N/A	<u>125,417</u>
TOTAL U.S. Department of State Bureau of Education and Cultural Affairs			<u>127,842</u>
U.S. Defense Logistic Agency			
Passed through from the Ohio Department of Development - Ohio Procurement Technical Assistance Center	12.002	MBDD-12-016	<u>13,380</u>
National Science Foundation			
Passed through from Bowling Green State University NSF - SET-GO: Science, Engineering & Technology Gateway Ohio	47.076	DUE-0757001	16,978
Passed through from Bowling Green State University NSF - SET-GO Scholarships	47.076	DUE-850026	25,613
Passed through from Imaging Systems Technology NSF - SBIR/STTR Plasma Arrays	47.076	N/A	<u>13,256</u>
TOTAL National Science Foundation			<u>55,847</u>
Total Expenditures of Federal Awards			\$ <u><u>104,169,144</u></u>

See Notes to Schedule of Expenditures
of Federal Awards.

Owens Community College

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2012

Note 1 - Basis of Presentation and Significant Accounting Policies

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Owens Community College under programs of the federal government for the year ended June 30, 2012. Expenditures reported on the Schedule are reported on the same basis of accounting as the basic financial statements, although the basis for determining when federal awards are expended is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. In addition, expenditures reported on the Schedule are recognized following the cost principles contained in OMB Circular A-21, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Because the Schedule presents only a selected portion of the operations of Owens Community College, it is not intended to and does not present the financial position, changes in net assets, or cash flows, if applicable, of Owens Community College. Pass-through entity identifying numbers are presented where available.

Note 2 - Adjustments and Transfers

During the year ended June 30, 2012, there were the following transfers of grant overpayments:

Transferred from	Amount	Transferred to
Federal Supplemental Educational Opportunity Grant (FSEOG)	\$ 77,335	Federal Work Study

Owens Community College

Schedule of Findings and Questioned Costs Year Ended June 30, 2012

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
- Significant deficiency(ies) 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 programs:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

_____ Yes X No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.007, 84.268, 84.033, 84.063 84.002	Student Financial Assistance Cluster Adult Basic and Literacy Education

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes _____ No

Owens Community College

Schedule of Findings and Questioned Costs Year Ended June 30, 2012

Section II - Financial Statement Audit Findings

None

Section III - Federal Program Audit Findings

None

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Dave Yost • Auditor of State

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 18, 2012**