OWENS COMMUNITY COLLEGE
(A Component Unit of the State of Ohio)

Financial Statements

June 30, 2003 and 2002

(With Independent Auditors' Reports Thereon)

Auditor of State
Betty Montgomery

Board of Trustees
Owens Community College
P.O. Box 10000
Toledo, Ohio 43699-1947

We have reviewed the Independent Auditor's Report of the Owens Community College, Wood County, prepared by KPMG LLP, for the audit period July 1, 2002 through June 30, 2003. 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 Community College is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

November 6, 2003

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OWENS COMMUNITY COLLEGE
(A Component Unit of the State of Ohio)

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The management discussion and analysis (MDA) of Owens Community College's (the College) financial statements provides an overview of the College's operations for the fiscal years ended June 30, 2003 and 2002. Management has prepared this analysis, as well as the underlying financial statements and footnote disclosures, and is responsible for the completeness and fairness of the information.

Using This Annual Report

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

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

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

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

Financial Highlights

The net assets by category for fiscal year 2003 and 2002 are shown below. In the aggregate, the net assets increased by $4.2 million from fiscal year 2002.

Table 1

	Net assets			
	Invested in capital assets	Restricted (for loans)	Unrestricted	Total net assets
FY 2003	$ 53,343,636	106,676	20,229,718	73,680,030
FY 2002	47,850,281	106,676	21,522,807	69,479,764

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

A summarization of the College's assets, liabilities, and net assets at June 30, 2003 and 2002 follows:

Table 2

		2003	2002
Assets:			
Current assets	$	38,872,366	36,773,245
Capital assets		53,343,636	47,850,281
Notes receivable		730,613	489,509
Total assets		92,946,615	85,113,035
Liabilities:			
Current liabilities		17,237,957	13,961,954
Noncurrent liabilities		2,028,628	1,671,317
Total liabilities		19,266,585	15,633,271
Net assets:			
Invested in capital assets		53,343,636	47,850,281
Restricted		106,676	106,676
Unrestricted		20,229,718	21,522,807
Total net assets	$	73,680,030	69,479,764

The increase in current assets occurred because of increased summer and fall pre-enrollments combined with a change in the application of student financial aid. In the prior years, student financial aid was applied to the students' accounts receivable balance upon enrollment. In the current year, student financial aid will be applied to the students' accounts receivable balance after June 30, 2003.

As further discussed in the Capital Assets section of this document, capital assets increased primarily due to the completion of the Center for Fine and Performing Arts facility during the year and the purchase of land for the new Findlay campus. These two projects are the primary reasons for the increase in capital assets at June 30, 2003.

The increase in current liabilities occurred primarily due to increased summer and fall pre-enrollment combined with the $15.75 per credit hour fee increase compared to Summer 2002.

(Continued)

A summarization of the College's revenues, expenses, and changes in net assets for the years ended June 30, 2003, and 2002 follows:

Table 3

		2003	2002
Operating revenues:			
Student tuition and fees	$	17,810,827	15,826,831
Grants – federal, state, local		20,612,798	15,759,045
Sales and service		153,829	185,783
Auxiliary activities		6,714,197	5,328,881
Other operating revenues		351,520	943,914
Total operating revenues		45,643,171	38,044,454
Operating expenses:			
Educational and general		69,780,738	62,556,983
Depreciation		3,040,099	3,479,495
Auxiliary enterprises		6,420,317	5,597,796
Total operating expenses		79,241,154	71,634,274
Operating loss		(33,597,983)	(33,589,820)
Nonoperating revenues:			
State appropriations		31,484,662	32,915,200
Other nonoperating revenues and expenses		409,376	500,653
Total nonoperating revenues		31,894,038	33,415,853
Loss before other revenues, expenses		(1,703,945)	(173,967)
Capital appropriations and grants		5,904,211	4,352,640
Increase in net assets		4,200,266	4,178,673
Net assets:			
Net assets – beginning of year		69,479,764	65,301,091
Net assets – end of year	$	73,680,030	69,479,764

Statement of Revenues, Expenses, and Changes in Net Assets

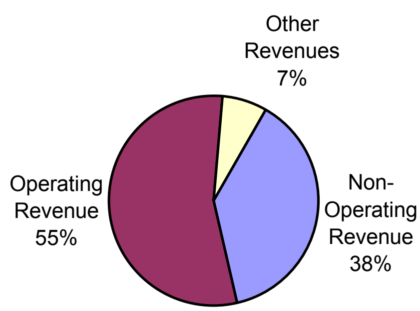
The College converted from a technical college to a state community college in 1994. Since that date, enrollment has increased by 113% and the FTE (full-time equivalent) increased by 117%. For the Fall Semester 2003, the headcount of 19,615 represented a 6.22% increase, while for the Fall Semester 2002, the headcount of 18,467 represented a 7% increase over the prior year fall semester. The FTE's for Fall 2003 and Fall 2002 were 5,379 and 5,011, respectively, and represented increases of 7% and 13%, respectively.

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

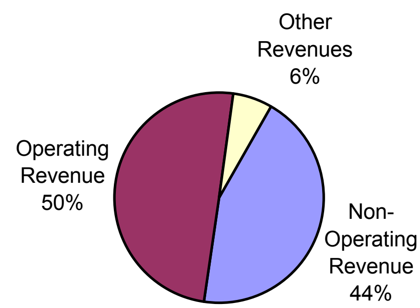
The charts set forth below present total revenues by category for the fiscal years ended June 30, 2003 and 2002, respectively.

Chart 1

Owens Community College
FY 2003 Revenues



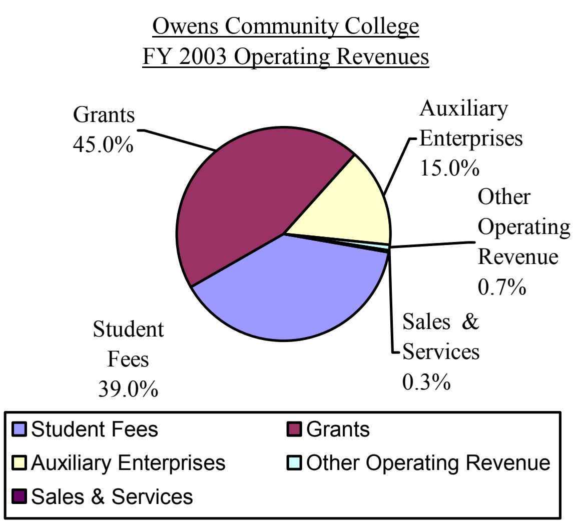
Owens Community College
FY 2002 Revenues

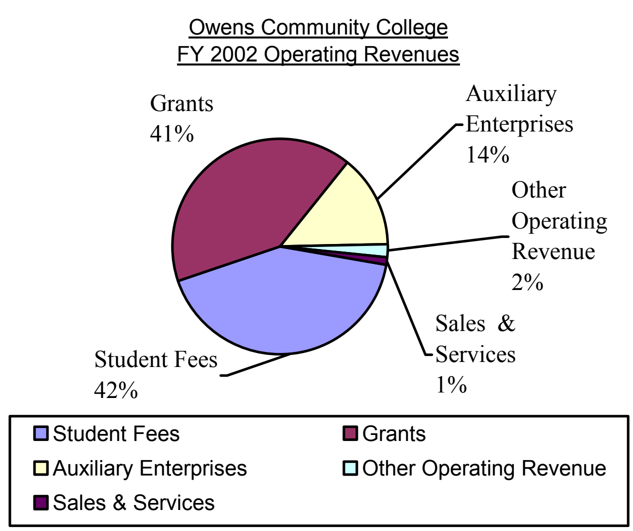


Operating Revenue

The charts set forth below reflect the College's operating revenue for the fiscal years ended June 30, 2003 and 2002, respectively.

Chart 2





While the College's enrollment increased and the tuition and fees increased, the financial aid discount increased substantially, resulting in an increase in grants. The College fee that students were assessed on a per credit hour basis for fiscal year 2002 was $75. Beginning with the Summer 2002 term, the fee was raised to $85 per credit hour. Beginning with the Spring 2003 term, this fee was again increased to $95 per credit hour. Effective for Summer 2003 (fiscal year 2004), the per credit hour fee was increased to $100.75.

The two recent increases in tuition were due to the fact that the State of Ohio reduced the College's share of instruction by 10% during the last two fiscal years. During this same time period, the College grew by 22% in FTE. The board of trustees and administration were jointly concerned as to the potential negative impact that faced the budget without the increase in tuition. It is to be noted that although the College raised its fees by 34%, the College offers a lower tuition rate per hour than other Toledo-area colleges.

Auxiliary services activities, including food services, bookstore operations, child care services, and communications and printing, increased primarily due to additional textbook sales due to overall enrollment growth.

Nonoperating Revenue

The College's largest single source of revenue is the nonoperating revenue received from the State of Ohio. The College's State share of instruction and access challenge funds amounted to $31,484,662 and $32,882,984 in fiscal years 2003 and 2002, respectively, out of total State appropriations of $31,484,662 and $32,915,200 in fiscal years 2003 and 2002, respectively. The amount allocated for fiscal year 2004 is $32,444,742.

Another component of nonoperating revenue is investment income. Interest rates have continued to decrease, resulting in an 18% decrease from fiscal year 2002.

Operating Expense Changes

The College’s revenues and operating expenses are closely linked to student enrollment changes. Many of the expense increases in fiscal year 2002 and 2003 were the continued result of enrollment increases experienced in the previous years when the College had enrollment growth in near double-digit percentages. Operating expense increases were experienced in most areas.

Instructional and Departmental Research expense increases are consistent with growth patterns and a 4% and 5% salary increase for fiscal year 2003 and 2002, respectively, plus benefits cost for all full-time faculty.

Depreciation expense of $3,479,495 appeared for the first time in fiscal year 2002 due to the changes mentioned earlier. The depreciation expense for fiscal year 2003 was $3,040,099.

Capital Assets

At June 30, 2003 and 2002, respectively, the College had $53,343,636 and $47,850,281 invested in capital assets. Of the formerly recorded assets through June 30, 2001, $45,045,423 was recorded as accumulated depreciation at that date. The adjusted amount of investments in capital net of accumulated depreciation as of June 30, 2001 was $46,547,348.

The details of the capital assets at June 30, 2003 and 2002, respectively, are shown below.

Table 4

		2003	2002
Land and land improvements	$	10,964,271	9,366,469
Buildings		70,135,051	59,453,083
Equipment		23,242,213	23,115,248
Less accumulated depreciation		(51,552,742)	(48,512,643)
Net of depreciation		52,788,793	43,422,157
Construction in progress		554,843	4,428,124
Totals	$	53,343,636	47,850,281

Although the State of Ohio has reduced the College's funding, capital plans have remained intact. The major capital project for fiscal year 2003 and 2002 was the construction of the new Center for Fine and Performing Arts, a 74,396-square-foot facility with a total construction cost of $10.1 million, with the State of Ohio providing approximately $8 million. The College's share of the remaining cost came from unexpended net assets. Since the start of construction in December 2001, $512,716 was expended in fiscal year 2001, $3,915,408 in fiscal year 2002 and $5,737,171 in fiscal year 2003. This facility includes a 520-seat theater, a 50-seat music recital hall, 13 classrooms, 25 laboratories and 37 offices. The Center opened for limited use in June 2003.

Planning continues on relocating the Findlay campus to a new site at 3200 Bright Road, Findlay, in Hancock County. Land was purchased in fiscal year 2003 for $1.2 million in State funds. Site preparation is currently under way. A bid opening, scheduled in October 2003, will see the construction of Phase I, the Findlay Education Center, with a project budget of $17,746,360. State funding of $9,546,360 has been approved for the construction of the Findlay Education Center. The College's share of the remaining cost will come from unexpended net assets. The new campus will be opened for classes in Fall 2005. The College also received State funding for a stand-alone $250,600 Child Care Center of 2,400 square feet, and this will also be opened in 2005.

On the Toledo-area campus in Perrysburg, Wood County, planning also continues for Phase I of the 69-acre Fire and Police Training Site. State funding of $1,145,610 has been approved for the construction of Phase I of the Fire and Police Training Site. Phase I will include the construction of infrastructure, utilities, power, lighting, fencing, ponds, pursuit track, driving/handling road course, smokeless burn building, and observation tower.

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

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150 West Jefferson
Detroit, MI 48226-4429

Independent Auditors' Report

The Board of Trustees
Owens Community College:

We have audited the accompanying basic financial statements of Owens Community College (the College), a component unit of the State of Ohio, as of and for the years ended June 30, 2003 and 2002, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Owens Community College as of June 30, 2003 and 2002, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued a report dated September 17, 2003 on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in note 15, during the year ended June 30, 2002, the College adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments;* GASB Statement 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities;* GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus;* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

The Management's Discussion and Analysis on pages 1 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

September 17, 2003

OWENS COMMUNITY COLLEGE
(A Component Unit of the State of Ohio)

Statements of Net Assets

June 30, 2003 and 2002

Assets	**2003**	**2002**
Current assets:		
Cash and cash equivalents	$ 21,115,176	21,682,363
Investments	33,050	32,580
Accounts receivable, net	15,651,801	11,792,161
Receivable from Foundation	42,641	16,274
Prepaid expenses and deferred charges	929,533	2,120,329
Deposits	22,005	22,005
Inventories	969,622	1,021,149
Student loans receivable, net	108,538	86,384
Total current assets	38,872,366	36,773,245
Noncurrent assets:		
Capital assets, net	53,343,636	47,850,281
Student loans receivable, net	730,613	489,509
Total noncurrent assets	54,074,249	48,339,790
Total assets	$ 92,946,615	85,113,035
Liabilities and Net Assets		
Liabilities:		
Current liabilities:		
Accounts payable	$ 1,314,196	2,388,042
Salaries, wages, and fringe benefits payable	3,343,861	2,874,078
Deferred revenue	12,441,055	8,590,015
Deposits held for others	138,845	109,819
Total current liabilities	17,237,957	13,961,954
Noncurrent liabilities:		
Benefits payable	1,043,414	945,000
Federal student loans	837,890	601,681
Non-federal student loans	147,324	124,636
Total noncurrent liabilities	2,028,628	1,671,317
Total liabilities	19,266,585	15,633,271
Net assets:		
Invested in capital assets	53,343,636	47,850,281
Restricted for expendable assets	106,676	106,676
Unrestricted	20,229,718	21,522,807
Total net assets	73,680,030	69,479,764
Total liabilities and net assets	$ 92,946,615	85,113,035

See accompanying notes to the financial statements.

OWENS COMMUNITY COLLEGE
(A Component Unit of the State of Ohio)

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2003 and 2002

	2003	2002
Operating revenues:		
Student tuition and fees, net of scholarship allowances of $12,036,544 and $7,497,224 in fiscal years 2003 and 2002, respectively	$ 17,810,827	15,826,831
Grants – federal, state, local	20,612,798	15,759,045
Sales and services	153,829	185,783
Auxiliary activities, net of scholarship allowances of $34,404 and $17,023 in fiscal years 2003 and 2002, respectively	6,714,197	5,328,881
Other operating revenues	351,520	943,914
Total operating revenues	45,643,171	38,044,454
Operating expenses:		
Educational and general:		
Instructional and departmental research	32,699,777	29,433,570
Institutional research	185,218	98,008
Public service	2,742,641	2,486,825
Academic support	4,026,298	2,812,118
Student services	5,516,451	5,192,650
Institutional support	9,820,790	7,872,070
Operation and maintenance of plant	8,094,998	6,851,587
Scholarships and other student aid	6,694,565	7,810,155
Depreciation	3,040,099	3,479,495
Auxiliary enterprises	6,420,317	5,597,796
Total operating expenses	79,241,154	71,634,274
Operating loss	(33,597,983)	(33,589,820)
Nonoperating revenues (expenses):		
State appropriations	31,484,662	32,915,200
Investment income	409,376	500,653
Net nonoperating revenues	31,894,038	33,415,853
Loss before other revenues, expenses, gains, or losses	(1,703,945)	(173,967)
Capital appropriations	5,888,495	4,347,780
Capital grants	15,716	4,860
Total other revenues	5,904,211	4,352,640
Increase in net assets	4,200,266	4,178,673
Net assets:		
Net assets – beginning of year	69,479,764	65,301,091
Net assets – end of year	$ 73,680,030	69,479,764

See accompanying notes to the financial statements.

OWENS COMMUNITY COLLEGE
(A Component Unit of the State of Ohio)

Statements of Cash Flows

Years ended June 30, 2003 and 2002

	2003	2002
Cash flows from operating activities:		
Student tuition and fees	$ 17,635,971	14,378,529
Grants – federal, state, local	20,889,260	16,946,114
Payments to suppliers, students, and others	(29,781,961)	(25,935,092)
Payments to employees and benefits	(46,873,216)	(43,118,604)
Auxiliary enterprises	7,055,305	4,940,276
Sales and services	153,829	185,783
Student loans granted, net of loans collected	(4,361)	70,624
Other receipts	380,546	999,949
Net cash used in operating activities	(30,544,627)	(31,532,421)
Cash flows from noncapital financing activities:		
State appropriations	31,484,662	32,915,200
Federal Family Education Loan Program loan receipts	18,478,843	15,024,037
Federal Family Education Loan Program loan disbursements	(18,478,843)	(15,024,037)
Net cash provided by noncapital financing activities	31,484,662	32,915,200
Cash flows from capital and related financing activities:		
Capital appropriations	6,601,610	3,739,806
Capital grants and gifts received	15,716	4,860
Purchases of capital assets	(8,533,454)	(4,782,428)
Net cash used in capital and related financing activities	(1,916,128)	(1,037,762)
Cash flows from investing activities:		
Interest on investments	409,376	500,653
Purchase of investments	(470)	—
Proceeds from sale and maturity of investments	—	10,927,972
Net cash provided by investing activities	408,906	11,428,625
Net increase (decrease) in cash and cash equivalents	(567,187)	11,773,642
Cash and cash equivalents – beginning of year	21,682,363	9,908,721
Cash and cash equivalents – end of year	$ 21,115,176	21,682,363
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (33,597,983)	(33,589,820)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	3,040,099	3,479,495
Changes in assets and liabilities:		
Receivables, net	(4,599,122)	(913,979)
Inventories	51,527	(329,637)
Prepaid expenses and deferred charges	1,190,796	(1,517,248)
Notes receivable, net	(263,258)	9,743
Accounts payable	(1,073,846)	(121,205)
Salaries, wages, and benefits payable	568,197	(426,070)
Deferred revenue	3,851,040	1,759,384
Deposits held for others	29,026	56,035
Federal and non-federal student loans payable	258,897	60,881
Net cash used in operating activities	$ (30,544,627)	(31,532,421)

See accompanying notes to the financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization

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

The College is a component unit of the State of Ohio (the State). The accompanying financial statements comply with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity,* in that the financial statements include those activities and functions over which the College is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board and either (1) the College's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit or impose a financial burden on the College. The College does not have any component units.

(b) Financial Statement Presentation

The College follows all applicable GASB pronouncements. In addition, the College applies all applicable 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 pronouncements issued after November 30, 1989.

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

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

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

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

The financial statements of all controlled organizations are required to be included in the College's financial statements; organizations which are not controlled by the College, such as the Owens State Community College Foundation, are not included in the College's financial statements. There are no controlled organizations included in the College's financial statements for 2003 and 2002.

(c) Basis of Accounting

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

(d) Cash and Cash Equivalents

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

(e) Investments

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

(f) Accounts Receivable

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

(g) Inventories

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

(h) Capital Assets

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

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

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

(i) Deferred Revenue

Deferred revenue includes amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. The effect of allocating the summer term between fiscal years does not have a significant impact on the financial statement presentation. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

(Continued)

(j) Compensated Absences

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

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

(k) Operating and Nonoperating Revenues

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

(l) Student Tuition and Fees

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

(m) Scholarship Discounts and Allowances

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

(n) Auxiliary Activities

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

(o) Income Taxes

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

(p) Eliminations

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

(q) Use of Estimates

Management of the College has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

(r) Reclassifications

Certain amounts from the prior year have been reclassified to conform to the current year presentation.

(2) Cash and Investments

The College uses the "pooled cash" method of accounting for substantially all of its operating cash and investments, which, as of June 30, 2003 and 2002, were as follows:

		2003	2002
Cash	$	21,115,176	21,682,363
Investments		33,050	32,580
	$	21,148,226	21,714,943

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, 2003 and 2002.

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

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

(a) Cash and Cash Equivalents

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

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

3. Uncollateralized.

(b) Investments

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

2. Uninsured and unregistered, with securities held by the broker's trust department or agent in the College's name.

3. Uninsured and unregistered, with securities held by the broker or by its trust department or agent, but not in the College's name.

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

At June 30, 2002, the carrying amount of the College's cash and cash equivalents for all funds was $21,682,363. The difference in the carrying amount and the bank balance of $22,956,165 is caused by items in transit and outstanding checks. Of the bank balance, $425,736 was covered by federal depository insurance and $22,530,429 was uncollateralized (category 3). All uncollateralized deposits are covered by a pledged collateral pool.

Investments at June 30, 2003 and 2002 consist of investments in STAR Ohio of $33,050 and $32,580, respectively. GASB Statement No. 3 does not require STAR Ohio's assets to be categorized.

(3) Accounts Receivable

The composition of accounts receivable at June 30, 2003 and 2002 is summarized as follows:

		2003	2002
Student receivables for fees and auxiliary services	$	15,032,351	9,936,524
Allowance for doubtful accounts		(1,408,764)	(1,023,027)
Grants – federal, state, local		1,411,895	1,458,092
Capital appropriations		49,396	762,511
Other		566,923	658,061
	$	15,651,801	11,792,161

(4) Student Loans Receivable

Student loans receivable at June 30, 2003 and 2002 include an allowance for doubtful loans of $255,141. Principal repayment and interest rate terms of federal and non-federal loans vary considerably. Federal loan programs are funded principally with federal contributions to the College under the Perkins program. Non-federal loan programs are funded principally with local grants to the College under these programs.

(5) Accounts Payable

The composition of accounts payable at June 30, 2003 and 2002 is summarized as follows:

		2003	2002
Trade payables	$	1,264,800	1,625,531
Construction payables		49,396	762,511
	$	1,314,196	2,388,042

(6) State Support

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

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

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

The College capitalizes the costs of renovations to existing facilities as funds are expended. As of June 30, 2003 and 2002, construction in progress on such new facilities was $554,843 and $4,428,124, respectively, and unexpended appropriations authorized by the State of Ohio legislature for the purchase of land, renovation of existing facilities, and construction of new facilities were $12,978,166 and $2,169,966, respectively.

(7) Retirement Plans

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

The funding policy for the above plans is as follows:

SERS: The ORC provides statutory authority for employee and employer contributions. During 2003, SERS employees contributed 9.0% of their salary to the plan, and the College contributed 14.0% of covered payrolls to the plan. The total employer contributions to SERS for the years ended June 30, 2001, 2002, and 2003 were approximately $1,443,000, $1,523,000, and $1,601,000, respectively, which were equal to the required contributions for each year.

STRS: The ORC provides statutory authority for employee and employer contributions. During 2003, STRS employees contributed 9.3% of their salary to the plan, and the College contributed 14.0% of covered payrolls to the plan. The total employer contributions to STRS for the years ended June 30, 2001, 2002, and 2003 were approximately $2,621,000, $2,550,000, and $3,004,000, respectively, which were equal to the required contributions for each year.

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

Eligible employees (those who are full-time and salaried) have 90 days from their date of hire to make an irrevocable election to participate in the alternate retirement plan. Under this plan, employees who would have otherwise been required to be in STRS and who elect to participate in the alternate retirement program must contribute the employee's share of retirement contributions (9.3% STRS) to one of eight private providers approved by the State Department of Insurance. The legislation mandates that the employer must contribute 3.5% to the state retirement system to which the employee would have otherwise belonged. The employer also contributes what would have been the employer's share of the appropriate retirement system, less the aforementioned 3.5%, to the private provider selected by the employee. The College plan provides these employees with immediate plan vesting. The total employer contribution to the alternative retirement plan for the years ended June 30, 2001, 2002, and 2003 were approximately $16,000, $29,000, and $49,000, respectively.

(8) Postemployment Benefits Other Than Pension Benefits

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

(a) SERS

SERS provides postretirement healthcare coverage to age-and-service retirants with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Healthcare coverage for disability recipients is available. The healthcare coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to SERS is set aside for the funding of postretirement healthcare. The Ohio Revised Code provides statutory authority for employer contributions. The 2003 and 2002 employer contribution rate for state employers was 14% of covered payroll; 8.5% was the portion that was used to fund healthcare for the year ended June 30, 2002.

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

For the year ended June 30, 2002, expenditures for OPEB's as a whole for SERS were $182.9 million. As of June 30, 2002, the audited net assets available for future OPEB payments were $335.2 million. The number of eligible benefit recipients for SERS was 59,349.

(b) STRS

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

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

The STRS board currently allocates employer contributions equal to 1.0% of covered payroll to the Health Care Reserve Fund, from which payments for healthcare benefits are paid. The balance in the Health Care Reserve Fund was approximately $3.0 billion at June 30, 2002. The Health Care Reserve Fund allocation for the year ended June 30, 2002 will be 4.5% of covered payroll.

For the year ended June 30, 2002, the net healthcare costs paid by the STRS system as a whole were $354.7 million. There were 105,300 eligible benefit recipients.

(9) Federal and State Grants

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

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

(Continued)

(10) Capital Assets

Capital asset activity for the years ending June 30, 2003 and 2002 was as follows:

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

(Continued)

	Balance July 30, 2001	Additions	Retirements	Balance June 30, 2002
Nondepreciated capital assets:				
Land	$ 3,404,958	—	—	3,404,958
Construction in progress	512,716	3,915,408	—	4,428,124
	3,917,674	3,915,408	—	7,833,082
Other capital assets:				
Land improvements	5,758,183	203,328	—	5,961,511
Buildings	59,236,269	216,814	—	59,453,083
Equipment	9,072,340	346,985	—	9,419,325
Computers, hardware, and software	11,133,182	99,893	—	11,233,075
Vehicles	1,234,581	—	12,275	1,222,306
Furniture and accessories	1,240,542	—	—	1,240,542
	87,675,097	867,020	12,275	88,529,842
Total capital assets	91,592,771	4,782,428	12,275	96,362,924
Accumulated depreciation:				
Land improvements	(4,878,237)	(379,596)	—	(5,257,833)
Buildings	(20,719,693)	(1,602,789)	—	(22,322,482)
Equipment	(7,312,365)	(615,682)	—	(7,928,047)
Computers, hardware, and software	(10,167,085)	(696,543)	—	(10,863,628)
Vehicles	(952,706)	(92,865)	(12,275)	(1,033,296)
Furniture and accessories	(1,015,337)	(92,020)	—	(1,107,357)
Total accumulated depreciation	(45,045,423)	(3,479,495)	(12,275)	(48,512,643)
Total capital assets, net	$ 46,547,348	1,302,933	—	47,850,281

(11) Related Organization

The College is affiliated with the Owens State Community College Foundation (the Foundation), which was established in June 1996 by the trustees of the College through signing a resolution that transferred all assets, liabilities, principal, and income from the Michael J. Owens Technical College Charitable Trust (the Trust) to the Foundation. The Foundation has been determined to be exempt from Federal income taxes under IRC Section 501(c)(3). The Foundation also reimburses the College for certain educational expenses. Total assets of the Foundation as of June 30, 2003 and 2002 were $1,106,078 and $840,164, respectively. The College received $97,629 and $53,329 from the Foundation in 2003 and 2002, respectively.

(12) Risk Management

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

(Continued)

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

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

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

(13) Noncurrent Liabilities

Noncurrent liabilities activity for the years ended June 30, 2003 and 2002 was as follows:

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

	Balance July 30, 2001	Increases	Decreases	Balance June 30, 2002	Amount due within one year
Benefits payable	$ 778,973	220,625	25,598	974,000	29,000
Federal student loans	519,143	118,468	35,930	601,681	—
Non-federal student loans	146,294	765	22,423	124,636	—

(14) Net Assets

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

	2003	2002
Restricted – expendable:		
Student loans	$ 106,676	106,676
Unrestricted:		
Designated	$ 5,950,039	8,295,043
Uncommitted	14,279,679	13,227,764
Total	$ 20,229,718	21,522,807

(15) Change in Accounting Principle

At July 1, 2001, as a result of the adoption of GASB Statement No. 34, the College was also required to make certain changes in accounting principles, specifically adoption of depreciation on capital assets of \$45,045,423 and recording federal and non-federal student loans of \$665,437. Combined fund balances as previously reported of \$111,011,951 to the restated net assets at July 1, 2001 were reduced by \$45,710,860 for the cumulative effect of these changes on years prior to fiscal year 2002.

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

The Board of Trustees
Owens Community College:

We have audited the financial statements of Owens Community College (the College), a component unit of the State of Ohio, as of and for the year ended June 30, 2003, and have issued our report thereon dated September 17, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

This report is intended solely for the information and use of the board of trustees, management, and 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.

KPMG LLP

September 17, 2003

OWENS COMMUNITY COLLEGE
(A Component Unit of the State of Ohio)

OMB Circular A-133 Single Audit Report

Year Ended June 30, 2003

(With Independent Auditors' Reports Thereon)

OWENS COMMUNITY COLLEGE
(A Component Unit of the State of Ohio)
OMB Circular A-133 Single Audit Report

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OWENS COMMUNITY COLLEGE
(A Component Unit of the State of Ohio)
Schedule of Expenditures of Federal Awards
Year ended June 30, 2003

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA number	Agency or pass-through number	Federal expenditures
U.S. Department of Education:			
Student Financial Assistance Cluster:			
Federal Supplemental Educational Opportunity Program	84.007	N/A	$ 474,139
Federal Family Education Loan Program	84.032	N/A	18,478,843
Federal Work-Study Program	84.033	N/A	318,412
Federal Perkins Loan Program	84.038	N/A	240,289
Federal Perkins Loan Program – Administrative expenses	84.038	N/A	62,829
Federal Pell Grant Program	84.063	N/A	13,280,386
Total Student Financial Assistance Cluster			32,854,898
Vocational Education Basic Grants to States	84.048	VECPIII-P01	302,913
Passed through from the State of Ohio Department of Education:			
Adult Education, State Grant Program:			
Adult Basic and Literacy Education	84.002	074864-AB-S1-02C	244,816
Adult Basic and Literacy Education	84.002	074864-AB-SL-02C	16,273
Adult Basic and Literacy Education	84.002	074864-AB-S1-03	116,129
Adult Basic and Literacy Education	84.002	074864-AB-SL-03	252,276
Adult Basic and Literacy Education	84.002	074864-AB-SL-02	6,996
Passed through from Lucas County Metropolitan Housing Authority:			
Adult Basic and Literacy Education	84.002	N/A	41,991
Total Adult Basic and Literacy Education Grants			678,481
Passed through from University of Toledo:			
Project Open House	84.024	N/A	12,715
Tech – Prep Education	84.243	N/A	102,829
Total U.S. Department of Education			33,951,836
U.S. Department of Health and Human Services:			
Passed through from Hazardous Materials Training Research Institute:			
NIEHS Superfund Hazardous Substances Basic Research & Education	93.143	5U45ES0617-09	1,328
Passed through from Toledo Hospital:			
Heart and Vascular Diseases Research	93.837	N/A	22,453
Total U.S. Department of Health and Human Services			23,781
U.S. Department of Labor:			
WIA Cluster:			
Passed through from Wood County Jobs and Family Services:			
WIA Adult Program	17.258	N/A	996,562
WIA Youth Activities	17.259	N/A	3,949
Total U.S. Department of Labor			1,000,511
Total expenditures of federal awards			$ 34,976,128

See accompanying notes to schedule of expenditures of federal awards and independent auditors' reports.

OWENS COMMUNITY COLLEGE
(A Component Unit of the State of Ohio)

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

(1) General

The accompanying schedule of expenditures of federal awards (the Schedule) presents the activity of federal award programs of Owens Community College. Owens Community College's reporting entity is defined in note 1 to its financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through government agencies, are included on the Schedule. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

(2) Basis of Accounting

The accompanying Schedule is prepared using the accrual basis of accounting.

(3) Federal Loan Programs

As of June 30, 2003, loans outstanding under the Federal Perkins Loan Program (CFDA #84.038) amounted to $920,724. This loan balance is not included in the federal expenditures presented in the Schedule.

KPMG

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Detroit, MI 48226-4429

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

The Board of Trustees
Owens Community College:

We have audited the financial statements of Owens Community College (the College), a component unit of the State of Ohio, as of and for the year ended June 30, 2003, and have issued our report thereon dated September 17, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

This report is intended solely for the information and use of the board of trustees, management, and 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.

KPMG LLP

September 17, 2003

Suite 1200
150 West Jefferson
Detroit, MI 48226-4429

Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

The Board of Trustees
Owens Community College:

Compliance

We have audited the compliance of 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 are applicable to its major federal program for the year ended June 30, 2003. The College's major federal program is identified in the Summary of Auditors' Results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable 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 College's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the College's compliance with those requirements.

In our opinion, the College complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

Internal Control Over Compliance

The management of the College is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the College's internal control over compliance with 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 the internal control over compliance in accordance with OMB Circular A-133.

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

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the College as of and for the year ended June 30, 2003 and have issued our report thereon dated September 17, 2003. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by OMB Circular A-133, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the board of trustees, management, and 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.

KPMG LLP

September 17, 2003

OWENS COMMUNITY COLLEGE
(A Component Unit of the State of Ohio)

Schedule of Findings and Questioned Costs

Year ended June 30, 2003

(1) Summary of Auditors' Results:

(a)	*Type of report issued on the financial statements:*	Unqualified Opinion
(b)	*Reportable conditions in internal control were disclosed by the audit of the financial statements:*	None Reported
	Material weaknesses:	No
(c)	*Noncompliance which is material to the financial statements:*	No
(d)	*Reportable conditions in internal control over major program:*	None Reported
	Material weaknesses:	No
(e)	*Type of report issued on compliance for major program:*	Unqualified Opinion
(f)	*Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133:*	No
(g)	*Major program:*	
	U.S. Department of Education – Student Financial Assistance Cluster (CFDA #'s 84.007; 84.032; 84.033; 84.038; and 84.063)	
(h)	*Threshold used to distinguish between Type A and Type B programs:*	$ 1,069,697
(i)	*Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133:*	No

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards:* None

(3) Findings and Questioned Costs Relating to Federal Awards: None

October 14, 2003

Re: Summary of Prior Year Audit Finding for the 2002 Fiscal Year

Dear Official:

Finding 02-1

Grant Program/CFDA #: U.S. Department of Education – Student Financial Assistance Cluster / CFDA #84.007, #84.032, #84.033, #84.038; and #84,063

Requirement: *Special Tests and Provisions – Return of Title IV Funds*: A school is required to have a fair and equitable refund policy under which the school shall make refunds of unearned tuition, fees, room and board, and other charges to a student who received HEA Title IV Student Financial Assistance. Under the FFEL program, the school pays to the original lender the portion of the refund that is allocable to the loan. Refunds should be processed in accordance with the established guidelines and timeframes.

Finding: A sample of 60 students was tested relative to refund calculations. Five instances were noted in which recalculations were not completed and processed in accordance with the established guidelines and timeframes.

Resolution: Management has corrected the finding.

Sincerely,

Shirley A. Moran

Shirley A. Moran
Controller

Auditor of State
Betty Montgomery

88 East Broad Street
P.O. Box 1140
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OWENS 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
NOVEMBER 20, 2003