

SINCLAIR COMMUNITY COLLEGE
Dayton, Ohio

FINANCIAL STATEMENTS
June 30, 2005 and 2004



**Auditor of State
Betty Montgomery**

Board of Trustees
Sinclair Community College
444 West Third Street
Dayton, Ohio 45402-1460

We have reviewed the *Report of Independent Auditors* of the Sinclair Community College, Montgomery County, prepared by Crowe Chizek and Company LLC, for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

December 12, 2005

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SINCLAIR COMMUNITY COLLEGE
Dayton, Ohio

FINANCIAL STATEMENTS
June 30, 2005 and 2004

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Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS

The President and Board of Trustees
Sinclair Community College and
Betty Montgomery, Auditor of State

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Sinclair Community College (the "College") as of and for the years ended June 30, 2005 and 2004, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the Sinclair Community College Foundation (Foundation), the component unit, (whose year ends are December 31, 2004 and 2003). Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the reports of the other auditors.

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 of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component unit of Sinclair Community College as of June 30, 2005 and 2004 (December 31, 2004 and 2003 for the Foundation), and the respective changes in net assets and cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 22, 2005, on our consideration of the College's internal control over financial reporting and 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, compliance and the results of that testing, and not to provide an opinion 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 results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Sinclair Community College taken as a whole. The accompanying Schedule of Expenditures of Federal Awards on pages 33 through 34, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for the purpose of additional analysis and is not a required part of the 2005 basic financial statements. The schedule is the responsibility of the College's management. Such additional information has been subjected to the auditing procedures applied in our audit of the 2005 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.

The Management's Discussion and Analysis (MD&A) on pages 3 through 11 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Columbus, Ohio
September 22, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Sinclair Community College's (the College) financial performance provides an overview of the College's financial activities for the fiscal years ended June 30, 2005 and 2004. Please read it in conjunction with the College's financial statements, which begin on page 12.

Financial Highlights

The College's financial position is strong at June 30, 2005. During fiscal year 2005, reported net assets increased by \$1.3 million (0.5%) from the prior year to \$250.3 million. This improvement resulted from an 11.2% increase in total revenues from \$120.9 million to \$134.5 million coupled with a nominal (0.4%) decrease in operating expenses from \$133.8 million to \$133.2 million. From fiscal year 2004 to 2005, student enrollment in terms of annual full time equivalents (FTE) grew by 0.8% from 12,984 to 13,086.

During fiscal year 2004, reported net assets declined \$12.9 million (4.9%) from the prior year to \$249.0 million. Total revenues declined by \$3.4 million (2.7%) while total expenses increased by \$7.5 million (5.9%). For the 2004 fiscal year, College finances supported enrollment growth of 2.4% and new investment in key student services initiatives to improve student success and retention.

Overview of the Financial Statements

This annual report consists of three main parts - management's discussion and analysis (this section), the financial statements, and a section containing reports on the audit of federal grants and contracts received by the College.

The financial statements are presented in the format required by the Ohio Board of Regents and the Ohio Department of Budget and Management for all state-assisted two- and four-year colleges and universities in Ohio. The statements are:

- Statement of Net Assets
- Statement of Revenues, Expenses and Changes in Net Assets
- Statement of Cash Flows

The statements are prepared on an accrual basis and present all assets and liabilities of the College, both financial and capital, and short and long term. They also present all revenues and expenses of the College during the year, regardless of when cash was received or paid.

Collectively, the statements provide a complete picture of the College's financial condition as of June 30, 2005 and 2004, and the results of its operations for the fiscal years then ended.

Net Assets

In fiscal 2005, the College's total net assets increased by \$1.3 million from \$249.0 million to \$250.3 million. Net Assets consists of three major categories: 1) Invested in capital assets, 2)

Restricted assets (externally restricted), 3) Unrestricted assets. This \$1.3 million increase can be viewed as having three primary components: 1) capital assets increased \$6.4 million due to the value of new capital additions exceeding depreciation expense, 2) the fair value of investments increased \$1.0 million, and 3) exclusive of depreciation expense and the increase in the fair value of investments, the aggregate result of all unrestricted revenue and expense activity, and the use of unrestricted net assets for capital asset acquisitions, was a reduction in the College's unrestricted net assets (allocated reserves) of \$6.0 million.

In fiscal 2004, the College's total net assets decreased from \$261.9 million to \$249.0 million. This \$12.9 million reduction can be viewed as having three main components: 1) capital assets declined \$5.4 million due to depreciation expense exceeding the value of new capital additions, 2) the fair value of investments decreased \$3.9 million, and 3) exclusive of depreciation expense and the decrease in the fair value of investments, the aggregate result of all unrestricted revenue and expense activity, and the use of unrestricted net assets for capital asset acquisitions, was a reduction in the College's unrestricted net assets (allocated reserves) of \$3.6 million.

TABLE 1
NET ASSETS
(in millions of dollars)

	2005	2004	Percentage Change 2004-05	2003
Current assets	\$ 50.1	\$ 38.7	29.5 %	\$ 47.4
Investments	98.7	114.2	(13.6)%	113.4
Capital assets, net	<u>123.0</u>	<u>116.6</u>	<u>5.5 %</u>	<u>122.0</u>
Total assets	271.8	269.5	0.9 %	282.8
Current liabilities	17.5	16.6	5.4 %	17.2
Long-term liabilities	<u>4.0</u>	<u>3.9</u>	<u>2.6 %</u>	<u>3.7</u>
Total liabilities	21.5	20.5	4.9 %	20.9
Net assets:				
Invested in capital assets	123.0	116.6	5.5 %	122.0
Restricted—expendable	1.7	1.8	(5.6)%	1.8
Unrestricted	<u>125.6</u>	<u>130.6</u>	<u>(3.8)%</u>	<u>138.1</u>
Total net assets	<u>\$ 250.3</u>	<u>\$ 249.0</u>	<u>0.5%</u>	<u>\$ 261.9</u>

Revenues and Expenses

Fiscal year 2005 total revenues (operating, nonoperating and other) were \$134.5 million while total operating expenses, including depreciation, were \$133.2 million, thus yielding a \$1.3 million increase in net assets. This compared to a \$12.9 million decrease in net assets in the prior year resulting from total revenues of \$120.9 million less expenses of \$133.8 million. An analysis of significant changes is discussed below.

Operating Revenues:

In 2005, the College realized an increase in operating revenues of \$3.8 million (7.2%) on the strength of nearly every category of revenue, with the largest share of the improvement deriving from a \$1.7 million positive change in student tuition and fees. Modest enrollment growth of 0.8% coupled with an average tuition and fee rate increase of 9% and a slight upturn in the percentage of gross tuition and fees offset by grants and scholarships accounted for an overall net gain of 9.4%. All other operating revenues combined to produce a 6.1% increase (\$2.1 million) versus the prior year.

Fiscal 2004 operating revenues increased \$1.2 million or 2.3%, primarily due to increases in student tuition and fees and federal Pell grants. These increases were partially offset by reductions in state, local and nongovernmental grants and contracts. Student tuition and fees increased \$1.7 million or 6.9%. However, student grants and scholarships increased by \$1.1 million, thus yielding a net increase of \$0.6 million or 3.4%. The increase in student tuition and fees is attributable to a 2.4% rise in credit enrollments coupled with a 6% increase in tuition. These increases were somewhat offset by a decrease in non-credit student fees due to lower enrollments in non-credit course offerings. The increase in student grants and scholarships resulted from additional Pell grants and institutionally funded student aid.

Operating Expenses:

In fiscal 2005, the College reduced its total operating expense per student FTE by 1.2%. This modest change can be attributed in part to a reduction in building depreciation expense due to an increase in the estimated useful lives of campus buildings.

Excluding plant operation and maintenance and depreciation expenses, the cost per student FTE rose by 4.3%. Salary and benefit rate increases in every functional area as well as a slight decline in the average class size versus FY 2004, coupled with new outlays for regional development and deployment of strategic and operational initiatives account for much of this increase.

Operating expenses in fiscal 2004 increased by \$7.5 million or 5.9%. On a cost per FTE student basis, this translates into a 3.3% increase. A significant portion of this increase, across all categories, resulted from enrollment growth and inflationary changes, including increases in salaries and wages and in health care insurance premiums. In light of reductions in state appropriations during the past several years, the College continued measures to contain costs.

Nonoperating and Other Revenues:

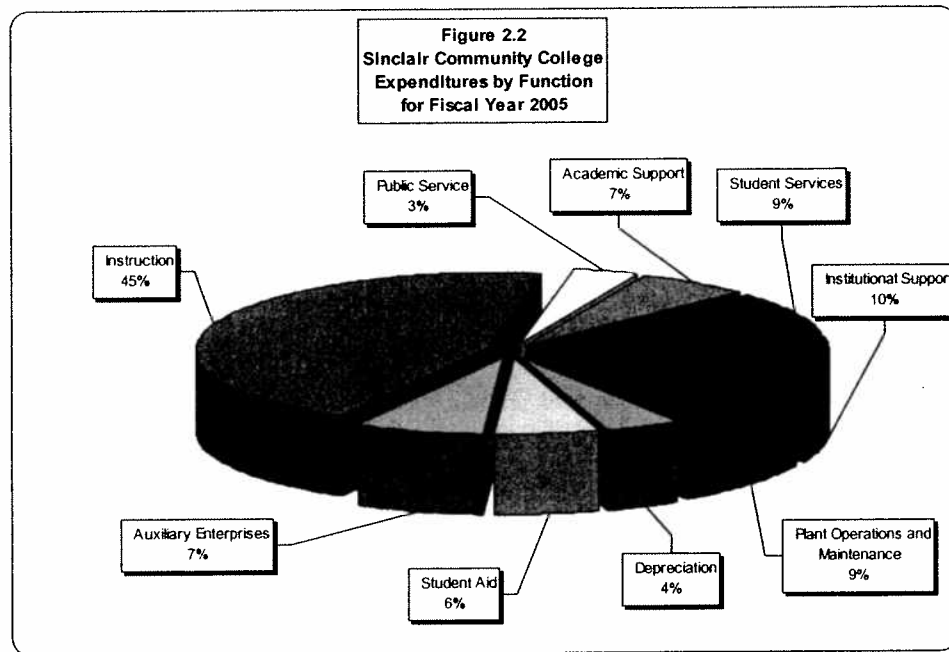
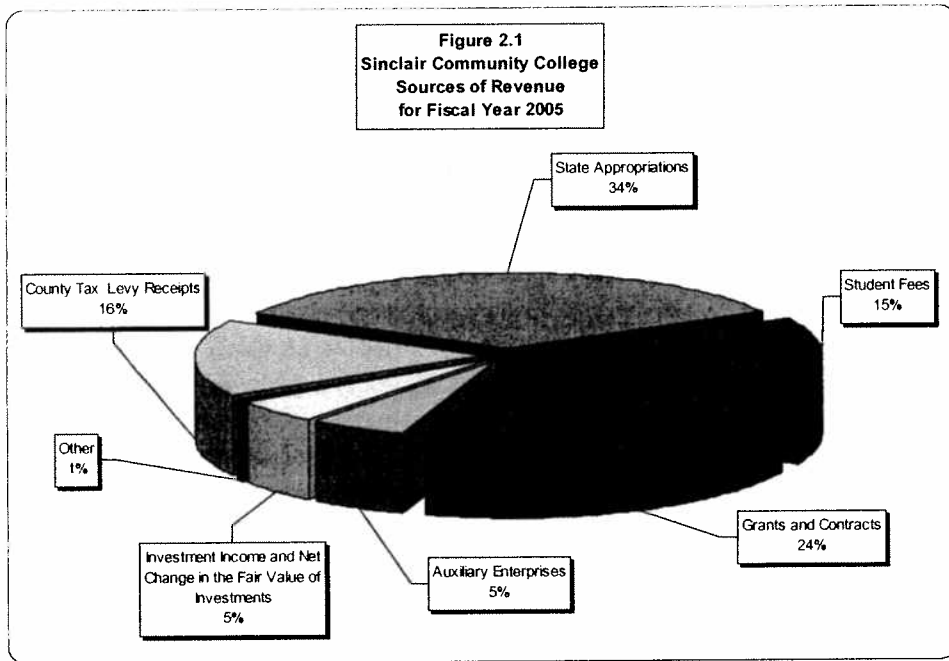
Fiscal 2005 nonoperating and other revenues grew by \$9.8 million, owing mainly to a reversal in FY 2004's decline in the fair value of the College's investments and a noteworthy increase in state appropriations. FY 2005 saw another decline in investment income for the College (\$0.3 million or 5.1%), though it was not as pronounced as FY 2004's \$1.3 million negative change. Capital grants were essentially flat from the prior year at \$3.7 million while county tax levy proceeds increased by 3.3%, or \$0.7 million.

As noted in the preceding paragraph, the fair value of the College's investments increased by \$1.0 million following a decrease of \$3.9 million in fiscal 2004 and an increase of \$1.2 million in fiscal 2003. All changes were the result of normal market value fluctuations in the bond market. As a result of 2005's increase, net unrealized gain in the College's portfolio more than doubled from the end of 2004 (\$1.8 million vs. \$0.8 million). The College's policy is to hold all of its investments to maturity; therefore, it is not anticipated that market value gains and losses will be realized.

State appropriations increased by \$4.5 million or 10.9% and \$0.9 million or 2.2% in fiscal 2005 and 2004, respectively. While higher education core funding at the state level was essentially flat in FY 2005 versus the prior year, the distribution of funds favored those institutions with growing enrollments, hence Sinclair's increase. Notwithstanding this improvement, the current cycle of state cuts that began in FY 2001 has resulted in a situation whereby state funding per FTE student was 6.9% lower in 2005 than in 2001.

TABLE 2
REVENUES EXPENSES AND CHANGES IN NET ASSETS
(in millions of dollars)

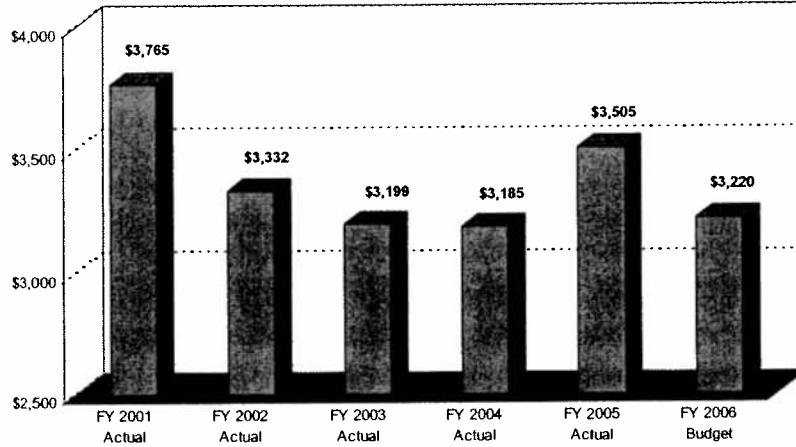
	<u>2005</u>	<u>2004</u>	Percentage Change <u>2004-2005</u>	<u>2003</u>
Operating revenues:				
Student tuition and fees, net of grants and scholarships	\$ 19.7	\$ 18.0	9.4%	\$ 17.4
Federal grants and contracts	19.4	18.9	2.6%	17.7
State and local grants and contracts	6.0	5.3	13.2%	5.8
Nongovernmental grants and contracts	2.6	2.3	13.0%	2.4
Sales and services of educational departments	0.9	0.6	50.0%	0.5
Auxiliary enterprises, net of grants and scholarships	7.3	6.9	5.8%	7.1
Other	<u>0.4</u>	<u>0.5</u>	<u>(20.0)%</u>	<u>0.4</u>
Total operating revenues	56.3	52.5	7.2%	51.3
Operating expenses:				
Instruction	59.7	57.0	4.7%	54.5
Public service	4.6	4.5	2.2%	4.7
Academic support	8.7	9.0	(3.3)%	8.5
Student services	11.6	11.0	5.5%	10.0
Institutional support	13.0	11.8	10.2%	11.0
Plant operations and maintenance	12.6	16.8	(25.0)%	14.4
Depreciation	5.7	7.7	(26.0)%	7.4
Student aid	7.5	7.1	5.6%	6.9
Auxiliary enterprises	<u>9.8</u>	<u>8.9</u>	<u>10.1%</u>	<u>8.9</u>
Total operating expenses	133.2	133.8	(0.4)%	126.3
Nonoperating and other revenues:				
State appropriations	45.9	41.4	10.9%	40.5
County tax levy receipts	22.0	21.3	3.3%	21.2
Investment income	5.6	5.9	(5.1)%	7.2
Net increase (decrease) in the fair value of investments	1.0	(3.9)	125.6%	1.2
Capital grants	<u>3.7</u>	<u>3.7</u>	<u> </u>	<u>2.9</u>
Total nonoperating and other revenues	<u>78.2</u>	<u>68.4</u>	<u>14.3%</u>	<u>73.0</u>
Increase (decrease) in net assets	<u>\$ 1.3</u>	<u>\$ (12.9)</u>	<u>(110.1)%</u>	<u>\$ (2.0)</u>



Economic Factors and Next Year's Budget

Despite a modest recovery in state funding in FY 2005, this revenue stream remains an area of concern for the College, as expected state funding per student FTE is budgeted to decline by 8.1% in FY 2006. This drop follows a trend that began in FY 2002 (see Figure 2.3); if state funding per FTE were maintained at FY 2001 levels, the College's total state appropriations would have been approximately \$3.4 million higher in FY 2005 and \$7.4 million higher in FY 2006.

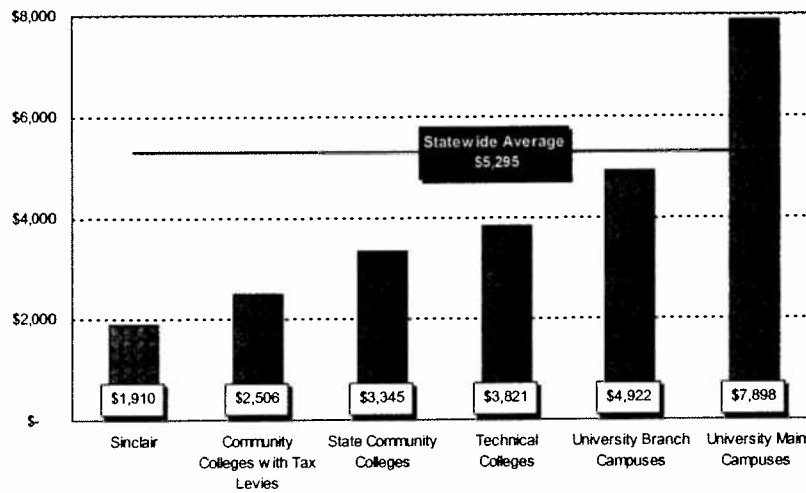
Figure 2.3
Sinclair Community College
State Appropriations Per FTE
for Fiscal Years 2001 Actual - 2006 Budget



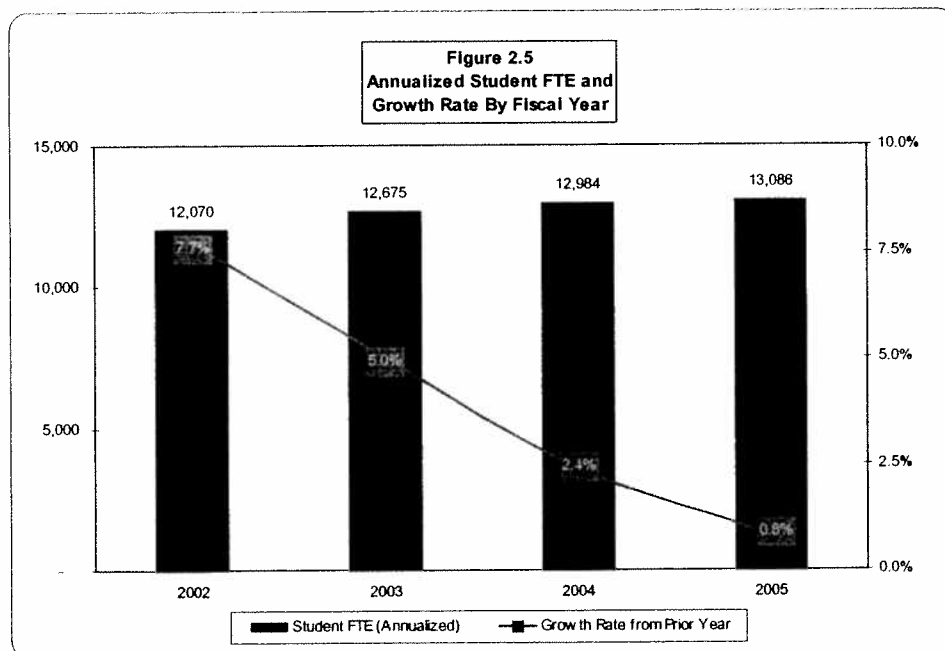
In addition, flatter than expected enrollment for the summer and fall terms of FY 2006 and a slowing of growth in recent years may lead to not only a tuition revenue shortfall to budgeted levels in FY 2006, but may adversely affect state appropriations in FY 2007 as the Ohio Board of Regents' funding formula for the distribution tends to reward "growth" institutions.

To compensate for the anticipated decline in state funding heading into FY 2006, the College instituted a 6.0% tuition increase effective with the Fall quarter 2005. Notwithstanding this increase, the College's tuition for Montgomery county residents remains the lowest as compared to the other state-supported institutions of higher education in Ohio (see Figure 2.4).

Figure 2.4
Annualized Tuition - Fall 2005
Source: Ohio Board of Regents Annual Survey



As demonstrated in Figure 2.5, the College faces a challenge in reversing the downward trend in growth rates it has experienced in student enrollment over the last several years. Although enrollments (as measured by FTE student counts) have increased every year since 1998, the *growth rate* has steadily declined from its recent peak of 7.7% in 2002 to less than 1.0% in 2005. Given its degree of operating leverage, robust growth allows the College to cost effectively offer new and enhanced programs and services as incremental revenues are realized faster than incremental costs are incurred.



As a strategy for reversing this recent trend and to provide more citizens with needed higher education, the College is implementing two new learning centers at YMCA sites in Englewood and Huber Heights. In addition, the College is pursuing partnership opportunities to expand programs and services in Warren County.

Capital Assets

Land value increased \$.4 million in fiscal 2005 and fiscal 2004, primarily due to the acquisition of small properties near the campus. Additions to buildings and improvements of \$9.3 million in fiscal 2005 and \$.1 million in fiscal 2004 were offset by depreciation expense of \$2.2 million and \$5.0 million in the respective years. Building additions include a \$4.0 million project to replace the concrete paving in front of the David Ponitz Center. A change in the estimated useful life of buildings from 40 years to 60 lowered building depreciation expense by \$2.1 million compared to fiscal year 2004. New additions to equipment inventory, the majority for classroom and laboratory use and IT replacement, totaled \$2.0 million in fiscal 2005 and \$1.6 million in fiscal 2004, but depreciation expense lowered the net equipment inventory by \$.6 million and \$.8 million in the respective years.

TABLE 3
CAPITAL ASSETS
(net of depreciation, in millions of dollars)

	2005	2004	Percentage Change 2004-2005	2003
Land and improvements	\$ 10.8	\$ 10.4	3.8 %	\$ 10.0
Buildings and improvements	104.0	97.3	6.9 %	102.2
Equipment	6.9	7.5	(8.0)%	8.3
Library books	<u>1.3</u>	<u>1.4</u>	<u>(7.1)%</u>	<u>1.5</u>
	<u>\$ 123.0</u>	<u>\$ 116.6</u>	<u>5.5 %</u>	<u>\$ 122.0</u>

SINCLAIR COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
Years ended June 30, 2005 and 2004

ASSETS	2005	2004
CURRENT ASSETS:		
Cash and cash equivalents	\$ 19,685,913	\$ 9,106,127
Accounts receivable, net	6,642,777	6,304,533
Prepaid expenses	514,265	561,530
Interest receivable	460,903	555,472
Property tax levy receivable	21,331,562	21,071,397
Inventories	<u>1,495,490</u>	<u>1,112,675</u>
Total current assets	<u>50,130,910</u>	<u>38,711,734</u>
NONCURRENT ASSETS:		
Investments	98,695,088	114,217,345
Capital assets, net	<u>122,936,946</u>	<u>116,557,755</u>
Total noncurrent assets	<u>221,632,034</u>	<u>230,775,100</u>
Total assets	<u>\$ 271,762,944</u>	<u>\$ 269,486,834</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accruals	5,109,496	4,593,684
Accrued salaries, wages and benefits	9,170,633	9,087,119
Deferred student fee income	2,505,127	2,299,776
Deposits	<u>743,217</u>	<u>637,399</u>
Total current liabilities	17,528,473	16,617,978
NONCURRENT LIABILITIES:		
Accrued salaries, wages and benefits	<u>3,982,670</u>	<u>3,899,457</u>
Total liabilities	21,511,143	20,517,435
NET ASSETS:		
Invested in capital assets	122,936,946	116,557,755
Restricted - expendable	1,683,316	1,756,610
Unrestricted	<u>125,631,539</u>	<u>130,655,034</u>
Total net assets	<u>250,251,801</u>	<u>248,969,399</u>
Total liabilities and net assets	<u>\$ 271,762,944</u>	<u>\$ 269,486,834</u>

See accompanying notes to the financial statements.

SINCLAIR COMMUNITY COLLEGE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
Years ended December 31, 2004 and 2003

ASSETS	2004	2003
Cash	\$ <u>687,777</u>	\$ <u>423,872</u>
Investments (Note K):		
Fixed income securities	6,690,295	5,064,575
Equities	13,427,800	11,774,320
Miami Valley Venture Funds	<u>140,588</u>	<u>112,044</u>
Total investments	<u>20,258,683</u>	<u>16,950,939</u>
Accounts receivable	<u>64,316</u>	--
Pledges receivable, net of allowances of \$115,304 and \$0 at December 31, 2004 and 2003, respectively (Note K)	<u>5,854,687</u>	<u>3,851,235</u>
Total assets	<u>\$ 26,865,463</u>	<u>\$ 21,226,046</u>
 LIABILITIES AND NET ASSETS		
Payable to Sinclair Community College	\$ 331,522	\$ 275,652
Other payables	<u>128,576</u>	<u>76,438</u>
Total liabilities	<u>460,098</u>	<u>352,090</u>
Net assets:		
Unrestricted	15,484,541	13,785,566
Temporarily restricted	7,014,026	3,302,616
Permanently restricted	<u>3,906,798</u>	<u>3,785,774</u>
Total net assets	<u>26,405,365</u>	<u>20,873,956</u>
Total liabilities and net assets	<u>\$ 26,865,463</u>	<u>\$ 21,226,046</u>

SINCLAIR COMMUNITY COLLEGE
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 Years ended June 30, 2005 and 2004

REVENUES	2005	2004
Operating revenues:		
Student tuition and fees	\$ 29,685,538	\$ 27,133,316
Less grants and scholarships	<u>(10,006,293)</u>	<u>(9,096,299)</u>
Student tuition and fees net of grants and scholarships	19,679,245	18,037,017
Federal grants and contracts	19,417,890	18,878,375
State and local grants and contracts	6,041,369	5,232,669
Nongovernmental grants and contracts	2,562,962	2,336,316
Sales and services of educational departments	880,095	557,841
Auxiliary enterprises		
Food service	309,297	263,675
Bookstore (net of grants and scholarships of \$3,225,997 and \$2,751,442 in 2005 and 2004, respectively)	6,463,778	6,133,005
Parking	497,338	546,080
Other operating revenues	<u>437,910</u>	<u>464,607</u>
Total operating revenues	<u>\$ 56,289,884</u>	<u>\$ 52,449,585</u>

(Continued)

SINCLAIR COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years ended June 30, 2005 and 2004

EXPENSES	2005	2004
Operating expenses:		
Educational and general:		
Instruction	\$ 59,744,753	\$ 56,950,275
Public service	4,626,104	4,502,920
Academic support	8,720,288	9,001,869
Student services	11,607,832	11,014,833
Institutional support	13,002,991	11,836,392
Plant operations and maintenance	12,547,922	16,788,038
Depreciation	5,700,210	7,678,731
Student aid	7,450,919	7,113,597
Auxiliary enterprises:		
Food service	140,500	158,889
Bookstore	8,881,838	8,137,097
Parking	<u>739,837</u>	<u>596,361</u>
Total operating expenses	<u>133,163,194</u>	<u>133,779,002</u>
Operating loss	<u>(76,873,310)</u>	<u>(81,329,417)</u>
Nonoperating revenues (expenses):		
State appropriations	45,861,193	41,357,680
County tax levy receipts	21,992,001	21,324,288
Investment income	5,609,931	5,897,670
Net increase (decrease) in the fair value of investments	<u>1,031,042</u>	<u>(3,865,022)</u>
Total nonoperating revenues	<u>74,494,167</u>	<u>64,714,616</u>
Income (loss) before other revenues, expenses, gains, or losses	(2,379,143)	(16,614,801)
Other revenues - state capital grants	<u>3,661,545</u>	<u>3,695,926</u>
Increase (decrease) in net assets	1,282,402	(12,918,875)
Net assets:		
Beginning of year	<u>248,969,399</u>	<u>261,888,274</u>
End of year	<u>\$ 250,251,801</u>	<u>\$ 248,969,399</u>

See accompanying notes to the financial statements.

SINCLAIR COMMUNITY COLLEGE FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years ended December 31, 2004 and 2003

	2004			2003				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support:								
Contributions (Note K)	\$ 1,076,613	\$ 4,621,711	\$ 81,298	\$ 5,779,622	\$ 1,266,674	\$ 1,013,447	\$ 673,972	\$ 2,954,093
Interest/dividends, net of fund expenses of \$39,809 in 2004 and \$40,513 in 2003	(15,274)	1,177	(441)	(14,538)	(22,797)	2,242	(511)	(21,066)
Net realized/ unrealized gains (losses) on investment	1,341,928	309,891	40,167	1,691,986	2,505,304	310,825	165,190	2,981,319
Net assets released from restrictions	<u>1,221,369</u>	<u>(1,221,369)</u>	--	--	<u>1,122,751</u>	<u>(1,122,751)</u>	--	--
Total revenue and support	<u>3,624,636</u>	<u>3,711,410</u>	<u>121,024</u>	<u>7,457,070</u>	<u>4,871,932</u>	<u>203,763</u>	<u>838,651</u>	<u>5,914,346</u>
Expenses:								
Scholarships	249,553	--	--	249,553	243,580	--	--	243,580
Project support	1,348,845	--	--	1,348,845	1,073,780	--	--	1,073,780
Operating expenses	<u>327,263</u>	<u>--</u>	<u>--</u>	<u>327,263</u>	<u>373,548</u>	<u>--</u>	<u>--</u>	<u>373,548</u>
Total expenses	<u>1,925,661</u>	<u>--</u>	<u>--</u>	<u>1,925,661</u>	<u>1,690,908</u>	<u>--</u>	<u>--</u>	<u>1,690,908</u>
Change in net assets	1,698,975	3,711,410	121,024	5,531,409	3,181,024	203,763	838,651	4,223,438
Net assets, beginning of year	<u>13,785,566</u>	<u>3,302,616</u>	<u>3,785,774</u>	<u>20,873,956</u>	<u>10,604,542</u>	<u>3,175,291</u>	<u>2,947,123</u>	<u>16,776,956</u>
Net assets, end of year	<u>\$ 15,484,541</u>	<u>\$ 7,014,026</u>	<u>\$ 3,906,798</u>	<u>\$ 26,405,365</u>	<u>\$ 13,785,566</u>	<u>\$ 3,379,054</u>	<u>\$ 3,785,774</u>	<u>\$ 20,950,394</u>

SINCLAIR COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
Years ended June 30, 2005 and 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tuition and fees	\$ 19,451,051	\$ 18,857,779
Grants and contracts	28,074,127	25,651,186
Payments to vendors and employees	(127,477,293)	(126,388,275)
Auxiliary enterprise charges	7,308,946	7,086,827
Sales and services of educational departments	917,415	507,655
Other receipts	<u>467,537</u>	<u>384,324</u>
Net cash used in operating activities	<u>(71,258,217)</u>	<u>(73,900,504)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
State appropriations	45,861,193	41,357,680
Property tax levy receipts	21,731,836	21,307,236
Direct student loan receipts	7,793,373	6,467,783
Direct student loan disbursements	(7,494,160)	(6,836,863)
Deposits	<u>105,818</u>	<u>(29,439)</u>
Net cash provided by non-capital financing activities	<u>67,998,060</u>	<u>62,266,397</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants	3,661,545	3,695,926
Purchases of capital assets	<u>(12,079,401)</u>	<u>(2,251,911)</u>
Net cash (used in) provided by capital and related financing activities	<u>(8,417,856)</u>	<u>1,444,015</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of investments	32,927,705	49,863,228
Interest on investments	6,258,765	6,332,230
Purchase of investments	<u>(16,928,671)</u>	<u>(55,001,749)</u>
Net cash provided by investing activities	<u>22,257,799</u>	<u>1,193,709</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	10,579,786	(8,996,383)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>9,106,127</u>	<u>18,102,510</u>
End of year	<u>\$ 19,685,913</u>	<u>\$ 9,106,127</u>

(Continued)

SINCLAIR COMMUNITY COLLEGE
 STATEMENTS OF CASH FLOWS
 Years ended June 30, 2005 and 2004

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES--	2005	2004
Operating loss	\$ (76,873,310)	\$ (81,329,417)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	5,700,210	7,678,731
Changes in net assets:		
Accounts receivable	(627,549)	1,023,736
Grants receivable	(9,908)	(910,986)
Inventory	(382,815)	(136,701)
Prepaid expenses	47,265	125,910
Accounts payable	515,812	(1,351,269)
Accrued salaries, wages and benefits	166,727	920,281
Deferred revenue	<u>205,351</u>	<u>79,211</u>
Net cash used by operating activities	<u>\$ (71,258,217)</u>	<u>\$ (73,900,504)</u>

See accompanying notes to financial statements.

SINCLAIR COMMUNITY COLLEGE FOUNDATION
STATEMENTS OF CASH FLOWS
Years ended December 31, 2004 and 2003

	2004	2003
Cash flows from operating activities:		
Change in net assets	\$ 5,531,409	\$ 4,197,497
Adjustments to reconcile to net cash used in operating activities:		
Accounts receivable	(64,316)	
Pledges receivable	(2,003,452)	(1,588,574)
Payable to Sinclair Community College	55,870	163,686
Other payables	52,138	25,941
Contributions and investment income restricted for long-term investment	(121,024)	(838,651)
Net realized/unrealized (gains) losses on investments	<u>(1,691,986)</u>	<u>(2,981,319)</u>
Net cash used in operating activities	<u>1,758,639</u>	<u>(1,021,420)</u>
Cash flows related to investing activities:		
Proceeds from sale of investments	589,707	843,719
Purchase of investments	<u>(2,205,465)</u>	<u>(701,710)</u>
Net cash provided by (used in) investing activities	<u>(1,615,758)</u>	<u>142,009</u>
Cash flows related to financing activities:		
Investment income restricted for endowments	39,726	164,679
Contributions restricted for endowments	<u>81,298</u>	<u>673,972</u>
Net cash provided by financing activities	<u>121,024</u>	<u>838,651</u>
Net increase (decrease), in cash	263,905	(40,760)
Cash, beginning of year	<u>423,872</u>	<u>434,632</u>
Cash, end of year	<u>\$ 687,777</u>	<u>\$ 423,872</u>

SINCLAIR COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Sinclair Community College (the "College"), a two-year institution of higher education, began operations as a public community college in 1966. The College is operated by the Montgomery County Community College District, which was established by the voters of Montgomery County and is exempt from federal income taxes pursuant to provisions of Section 115 of the Internal Revenue Code. The College offers associate degrees and continuing education in the areas of allied health, business, engineering and industrial technologies, fine and performing arts, liberal arts and sciences, and extended learning and human services technology.

Accrual Accounting: The accompanying financial statements have been prepared on the full accrual basis of accounting, whereby revenue is recognized in the period earned, or in the case of advances from other governments, when all eligibility requirements are met in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Expenses are recognized when the related liabilities are incurred.

Financial Statements: The College reports as "business-type activities," as defined by GASB Statement No. 35. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

Pursuant to GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, the College follows GASB guidance as applicable to its business-type activities, and Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

Net Asset Classifications: In accordance with GASB Statement No. 35 guidelines, the College's resources are classified into the following three net asset categories:

- Invested in Capital Assets: capitalized physical assets, net of accumulated depreciation (see Note C).
- Restricted Nonexpendable: Net assets subject to externally imposed stipulations that are to be maintained permanently by the College. The College currently does not have any nonexpendable net assets.

SINCLAIR COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expendable: net assets related to grants and contracts activity, whose use is subject to externally-imposed restrictions

- Unrestricted: net assets that are not subject to externally-imposed restrictions. Unrestricted net assets may be designated for specific purposes by the Board of Trustees. Substantially all of the College's unrestricted net assets are designated for future uses or contingences (See Note B).

Operating Versus Non-operating Revenues and Expenses: The College defines operating activities as reported on the Statement of Revenues, Expense, and Changes in Net Assets, as those that generally result from exchange transactions such as payments received for providing goods or services and payments made for goods or services received. All of the College's expenses are from exchange transactions. Certain significant revenue streams relied on for operations are reported as non-operating revenues as required by GASB Statement No. 35, including state appropriations, county property tax levy receipts, investment income, and state capital grants.

Cash and Cash Equivalents: Cash, certificates of deposit, and money market funds, stated at cost, are considered cash and cash equivalents.

Accounts Receivable: Accounts receivable consists 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 and private sources, in connection with reimbursement of allowable expenditures made pursuant to the College's grants and contracts. Prior to 2005, the College had a practice of carrying most past due balances indefinitely, and maintaining a reserve for uncollectible amounts for these balances. During the year ended June 30, 2005, the Board adopted a policy for the annual write off of past due accounts that are over one year old at fiscal year end. In accordance with the policy, the College wrote off approximately \$1,500,000 of past due receivables. The write off did not have an expense impact. Accounts receivable are recorded net of estimated uncollectible amounts of approximately \$104,000 and \$1,543,000 at June 30, 2005 and 2004, respectively.

Deferred Student Fee Income: Deferred student fee income includes the unearned portion of student tuition and fees for the Summer 2005 sessions, advance payments received from health care providers for their employees' access to online continuing professional education, and advance payments received from businesses for non credit classes and seminars conducted after June 30.

SINCLAIR COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets: Capital assets are recorded at cost, or if acquired by gift, at fair value at the date of the gift. When capital assets are sold or otherwise disposed of, the net carrying value of such assets is removed from the accounts and the Invested in Capital Assets component of Net Assets is adjusted as appropriate. Capital assets, with the exception of land, are depreciated on the straight-line method over the following estimated useful lives:

Buildings and improvements	10-60 years
Equipment and fixtures	3-20 years
Library materials	10 years

During the year, the estimated useful lives of the College's buildings were extended from forty to sixty years. This was based on the excellent condition of the buildings, which have little deferred maintenance due to ongoing investment in facility renewal and replacement. This change in an accounting estimate lowered annual building depreciation expense by \$2,116,000. The increase in net assets in the current year would thereby have decreased by this amount under the previous estimate.

Grants and Scholarships: Student Tuition and Fees and Bookstore revenues are presented net of grants and scholarships applied directly to student accounts. Grants and scholarships consist primarily of awards to students from the Federal Pell Grant Program and the Ohio Instructional Grant Program. Payments made directly to students from grants and scholarships are presented as Student Aid.

Compensated Absences: Administrative and professional employees earn vacation leave at a rate of 13.33 hours for each month of service up to a maximum of 240 hours. Support staff earns vacation at a rate of 8 hours per month for the first 5 years of service up to a maximum of 240 hours. After 5 years of continuous employment, an additional 8 hours per year (.66 hours per month) are added to the accrual rate each year until the maximum monthly accrual rate of 13.33 hours is reached. Upon termination of employment, an employee is entitled to payment for all accrued vacation hours. The College has accrued a vacation liability for all employees equal to amounts earned.

All College employees earn 10 hours of sick leave for each month of service up to a maximum of 120 hours per year. Unused sick leave accumulates up to a maximum of 1,200 hours. This sick leave will either be absorbed by time off due to illness or injury, or within certain limitations, be paid to the employee upon retirement. The amount paid to an employee upon retirement is limited to one-quarter of the accumulated sick leave up to a maximum payout of 240 hours. The College has accrued a sick leave liability for all employees equal to the maximum payout upon retirement.

SINCLAIR COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Principle: For the year ended June 30, 2005, the College implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*. This new statement amends certain custodial risk provisions of GASB Statement No. 3 and addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

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 and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Reclassifications: Certain 2004 items have been reclassified to conform to the 2005 presentation.

NOTE B - CASH AND INVESTMENTS

In accordance with the State of Ohio's and the College's policy, the College is authorized to invest cash in certificates of deposit, repurchase agreements, United States treasury securities, federal government agency securities backed by the full faith and credit of the U.S. government, Ohio municipal securities and the State Treasurer's investment pool. The classification of cash and cash equivalents and investments in the financial statements is based on criteria set forth in GASB Statement No. 9. Cash equivalents are defined to include investments with original maturities of three months or less. Consistent with this definition, College funds on deposit in the State Treasurer's investment pool are classified as cash equivalents in the balance sheet. However, for GASB Statement No. 3 discussion purposes (see below), the funds in the State Treasurer's investment pool are classified as investments.

Deposits: At June 30, 2005, the carrying amount of the College's deposits in all funds was \$19,684,878 (included in cash and cash equivalents in the balance sheet) and the bank balance was \$20,960,791. The difference between carrying amount and bank balance was primarily due to outstanding checks at June 30, 2005. Of the bank balance, \$400,000 was covered by federal depository insurance or by collateral held by the College's agent in the College's name. The remaining balance of \$20,560,791 was uninsured. The uninsured deposits are held in accounts collateralized by a pooled collateral account at the Federal Reserve Banks of Cincinnati and New York. Custodial credit risk for deposits is the risk that, in the event of a bank failure, the College's deposits may not be returned to the College. The College follows the deposit policy for custodial risk in accordance with the Ohio Revised Code.

SINCLAIR COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE B - CASH AND INVESTMENTS (Continued)

Investments: Investments are stated at their fair value of \$98,696,123 (amortized cost basis of \$96,891,641). The College's investments include \$98,695,088 invested in Government National Mortgage Association (GNMA) pools and are therefore not subject to the credit risk disclosures of GASB Statement No. 40. The remaining \$1,035 was on deposit in the State Treasurer's investment pool and valued at the pool's share, which is the price for which the investment could be sold on June 30, 2005.

GNMA pools are aggregations of home mortgages. The maturities of the College's GNMA investments, based on the maturity dates of the pools when they were issued as 30 year bonds, are as follows:

<u>Years</u>	<u>Amount</u>
1-5	\$ --
6-10	16,561
11-20	8,231,094
Greater than 20	<u>90,447,433</u>
Total at fair value	\$ 98,695,088

However, a GNMA pool does not mature all at once on its stated maturity date. Rather, a portion of each pool matures every month, and an entire pool will usually mature many years before its maturity date. The following homeowner actions result in the return of principal to the owner of the GNMA pool: 1) making a monthly mortgage payment which includes a principal component, 2) refinancing a mortgage and thereby paying off the old mortgage, 3) selling a home and paying off the mortgage. GNMA principal amounts returned to the College are either reinvested, held as cash or used in operations as is deemed appropriate. For the year ended June 30, 2005 the College's GNMA investments returned principal as follows:

<u>Years</u>	<u>Amount</u>
1-5	\$
6-10	20,253
11-20	3,319,895
Greater than 20	<u>29,767,557</u>
Total (at cost)	\$ 32,927,705

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The College's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the requirements of the Ohio Revised Code and to insure that the term of the maturity of investments does not exceed the availability of the funds invested. The College has the ability and intent to hold all investment securities until maturity; therefore, it is not anticipated that market gains or losses will be realized.

SINCLAIR COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE B - CASH AND INVESTMENTS (Continued)

The College's cash and investments help support major allocated net assets designated by the Board of Trustees or restricted by outside parties for the following purposes:

Capital improvements, facility renovations, equipment	\$ 59,176,239
Tuition stabilization, unplanned income decline, uninsured losses, other contingencies and initiatives	46,474,733
Auxiliary enterprises	7,963,595
Restricted grants and contracts	1,683,316
Board designated endowment	<u>11,653,274</u>
 Total allocated net assets	 <u>\$ 126,951,157</u>

NOTE C - CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2005 and 2004 is summarized as follows:

	2005 Beginning Balance	Additions	Disposals	2005 Ending Balance
Cost				
Land and improvements	\$ 10,313,383	\$ 532,632		\$ 10,846,015
Buildings and improvements	184,640,375	9,329,718		193,970,093
Equipment and fixtures	17,481,035	2,061,516	\$ 967,631	18,574,920
Library materials	<u>4,752,268</u>	<u>167,909</u>	<u>306,871</u>	<u>4,613,306</u>
 Total cost	 <u>217,187,061</u>	 <u>12,091,775</u>	 <u>1,274,502</u>	 <u>228,004,334</u>
Less accumulated depreciation:				
Buildings and improvements	87,289,828	2,703,709		89,993,537
Equipment and fixtures	9,956,388	2,672,195	905,490	11,723,093
Library materials	<u>3,383,090</u>	<u>274,539</u>	<u>306,871</u>	<u>3,350,758</u>
 Total accumulated depreciation	 <u>100,629,306</u>	 <u>5,650,443</u>	 <u>1,212,361</u>	 <u>105,067,388</u>
 Capital assets, net	 <u>\$ 116,557,755</u>	 <u>\$ 6,441,332</u>	 <u>\$ (62,141)</u>	 <u>\$ 122,936,946</u>

SINCLAIR COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE C - CAPITAL ASSETS (Continued)

	2004 Beginning Balance	Additions	Disposals	2004 Ending Balance
Cost				
Land and improvements	\$ 10,007,960	\$ 305,423		\$ 10,313,383
Buildings and improvements	184,532,325	108,050		184,640,375
Equipment and fixtures	15,957,520	1,655,564	\$ 132,049	17,481,035
Library materials	<u>4,724,074</u>	<u>193,561</u>	<u>165,367</u>	<u>4,752,268</u>
Total cost	<u>215,221,879</u>	<u>2,262,598</u>	<u>297,416</u>	<u>217,187,061</u>
Less accumulated depreciation:				
Buildings and improvements	82,327,743	4,962,085		87,289,828
Equipment and fixtures	7,645,783	2,421,580	110,975	9,956,388
Library materials	<u>3,263,778</u>	<u>284,679</u>	<u>165,367</u>	<u>3,383,090</u>
Total accumulated depreciation	<u>93,237,304</u>	<u>7,668,344</u>	<u>276,342</u>	<u>100,629,306</u>
Capital assets, net	<u>\$ 121,984,575</u>	<u>\$ (5,405,746)</u>	<u>\$ (21,074)</u>	<u>\$ 116,557,755</u>

NOTE D - LONG-TERM LIABILITIES

Long-term liabilities activity for the years ended June 30, 2005 and 2004 is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
<u>2005</u>					
Compensated absences	<u>\$ 4,087,881</u>	<u>\$ 317,354</u>	<u>\$ 227,254</u>	<u>\$4,177,981</u>	<u>\$ 195,311</u>
<u>2004</u>					
Compensated absences	<u>\$ 3,852,974</u>	<u>\$ 384,695</u>	<u>\$ 149,788</u>	<u>\$4,087,881</u>	<u>\$ 188,424</u>

Long-term liabilities are primarily accumulated sick leave payable to employees upon retirement. See Note A – *Compensated Absences* for further discussion.

SINCLAIR COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE E - STATE AND COUNTY SUPPORT

The College is an institution of higher education that receives a state assisted student-based subsidy from the State of Ohio using a formula devised by the Ohio Board of Regents and general support from a Montgomery County, Ohio property tax levy (2-1/2 mills commencing January 1, 1999 and ending December 31, 2008).

In addition to student subsidies, the State of Ohio provides a portion of the funding for the construction of major plant facilities on the College campus, as well as for the renovation of facilities and the purchase of equipment.

NOTE F - LEASE OBLIGATIONS

The College leases various buildings, office space and equipment under operating lease agreements. These facilities and equipment are not recorded as assets on the balance sheet. The total rental expense under these agreements was \$362,887 and \$313,438 for the years ended June 30, 2005 and 2004, respectively.

Future minimum lease payments for all significant operating leases with initial or remaining terms in excess of one year as of June 30, 2005, are as follows:

Years ending June 30,	
2006	\$ 344,877
2007	305,576
2008	255,914
2009	136,823
2010	600
2011-2014	<u>3,000</u>
Total minimum lease payments	<u>\$ 1,046,790</u>

SINCLAIR COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE G - RETIREMENT PLANS

The College contributes to the State Teachers Retirement System of Ohio ("STRS") and the Ohio Public Employees Retirement System ("OPERS"), which are statewide cost-sharing multiple-employer plans. OPERS and STRS provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Faculty and some administrators are covered by STRS and all other employees are covered by OPERS. The College's law enforcement officers are members of the OPERS law enforcement division, which provides potentially greater retirement benefits and earlier benefit eligibility than are available for other OPERS members.

Authority to establish and amend benefits is provided by Ohio Revised Code, Chapters 145 and 3307, for OPERS and STRS, respectively. The financial statements and required supplementary statements for OPERS and STRS are made available for public inspection. The reports may be obtained by writing or calling:

OPERS
277 East Town Street
Columbus, OH 43215-4642
(614) 222-6705
(800) 222-PERS (7377)

STRS
275 East Broad Street
Columbus, OH 43215-3771
(614) 227-4002

OPERS plan members are required to contribute 8.5% (10.1% for law enforcement officers) of their annual salary, and STRS members contribute 10%. The College is required to contribute 13.55% (16.70% for law enforcement officers) and 14% of annual covered payroll for OPERS and STRS, respectively. The contribution requirements of plan members and the College are established and may be amended by state statute.

The College has established the Sinclair Community College Alternative Retirement Plan (the ARP) as required by Chapter 3305 of the Ohio Revised Code. The ARP had an effective date of March 31, 1999.

ARPs for public colleges and universities were created in Ohio law to provide employees with an alternative to OPERS and STRS. Key features are:

ARPs consist of insurance carrier annuity contracts that provide retirement and death benefits but no health or disability benefits. The Ohio Department of Insurance has approved nine companies to serve as ARP providers.

Eligibility is limited to tenure track faculty and certain administrative employees. Eligibility is further limited to new hires and to those with less than five years of service credit in their respective retirement systems on certain statutory dates.

SINCLAIR COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE G - RETIREMENT PLANS (Continued)

Employees electing the ARP instead of STRS are required to contribute 10% of salary. The College is required to contribute 3.5% to STRS, and the College's discretionary contribution to the ARP has been set at 10.5%.

Employees electing the ARP instead of OPERS are required to contribute 8.5% of salary. The College's discretionary contribution to the ARP has been set at 13.55%.

The College's contributions to OPERS, STRS and ARP required and made for the years ended June 30, 2005, 2004, and 2003 were as follows:

<u>Year</u>	<u>Contribution</u>		
	<u>OPERS</u>	<u>STRS</u>	<u>ARP</u>
2005	\$ 4,143,964	\$ 4,811,469	\$ 248,795
2004	3,757,130	4,836,977	247,753
2003	3,673,936	4,827,659	174,172

NOTE H - OTHER POSTEMPLOYMENT BENEFITS

OPERS provides postretirement health care coverage to age and service retirees (and their dependents) with 10 or more years of qualifying Ohio service credit while STRS provides these benefits to all retirees with 5 or more years of service credit and the dependents of the STRS retirees with 15 or more years of service credit can obtain health care coverage through STRS at full cost. Health care coverage for disability recipients and primary survivor recipients is also available under OPERS and STRS.

A portion of each employer's contributions is set aside for the funding of postretirement health care. For STRS, this rate for fiscal year ended June 30, 2004 was 1% of the employer contribution rate of 14% (see Note G). At June 30, 2004, the rate for OPERS and the law enforcement division was 4% of the total employer contribution rates of 13.55% and 16.70%, respectively. The Ohio Revised Code provides the statutory authority for public employers to fund postretirement health care through their contributions to OPERS and STRS.

Postretirement health care under OPERS is advance-funded on an actuarially determined basis. The actuarial value of OPERS net assets available for Other Postemployment Benefits (OPEB) at December 31, 2003, is \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 billion, respectively. The number of OPERS active contributing participants was 369,885 at year-end December 31, 2004. For the year ended June 30, 2005, the College contributed \$1,214,245 to OPERS for OPEB funding, which is equal to the actuarially required contributions of the plan.

SINCLAIR COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE H - OTHER POSTEMPLOYMENT BENEFITS (Continued)

Postretirement health care under STRS is financed on a pay-as-you-go basis. Assets available in the health care reserve fund for STRS amounted to \$3.1 billion as of June 30, 2004. Eligible benefit recipients reported for STRS totaled 111,853 as of June 30, 2004. For the year ended June 30, 2005, the College contributed \$343,676 to STRS to fund these benefits.

The Government Accounting Standards Board (GASB) has issued Statement No. 45 - *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes standards for the measurement, recognition and display of other postemployment benefits expenses and related liabilities, note disclosures and, if applicable, required supplementary information in the financial reports of employers subject to governmental accounting standards. The provisions of this statement are effective for financial statements for fiscal periods beginning after December 15, 2006.

NOTE I - INSURANCE

The College maintains comprehensive and umbrella insurance coverage with private carriers for real property, building contents, vehicles and liability. Vehicle policies include liability coverage for bodily injury and property damage. The College also carries professional coverage for employees and its Board of Trustees. The College retains a consulting firm to perform an annual examination of all insurance policies. There has been no significant reductions in insurance coverage in the current year.

NOTE J - CONTINGENCIES

The College receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the College. It is the opinion of management that any potential disallowance of claims would not have a material effect on the financial statements.

SINCLAIR COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE K - SINCLAIR COMMUNITY COLLEGE FOUNDATION

The financial statements of the Sinclair Community College Foundation are included in this report in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units - an amendment of GASB Statement No. 14*. This Statement amended Statement No. 14 to provide additional guidance to determine whether certain organizations, such as not-for-profit foundations, for which the primary institution is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the primary entity. Generally, this statement requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of an institution. The provisions of this Statement became effective for financial statements for periods beginning after June 15, 2004.

The Sinclair Foundation is a 501(c)(3) charitable foundation with its own governing board. The Foundation is operated for the benefit of the College, and raises funds that are used to provide student scholarships and to support specific activities and projects proposed by faculty and staff that are related to the College's educational mission. Each of the Foundation's financial statements for the years ended December 31, 2004 and 2003, is discreetly presented following the respective College financial statement.

The Foundation's statements were prepared in accordance with the pronouncements of the Financial Accounting Standards Board. 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 Foundation's financial information in the College's report for these differences.

Investments: The Foundation's investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. Other investments are recorded at cost or, if acquired by gift, at fair value at the date of the gift.

Investments at cost value at December 31:

	2004	2003
Fixed income securities	\$ 5,425,873	\$ 4,043,000
Equities	11,367,826	11,115,039
Miami Valley Funds	<u>140,588</u>	<u>112,044</u>
Total investments	<u>\$ 16,934,287</u>	<u>\$ 15,270,083</u>

SINCLAIR COMMUNITY COLLEGE
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2005 and 2004

NOTE K - SINCLAIR COMMUNITY COLLEGE FOUNDATION (Continued)

Contributions: Contributions to the Foundation are recognized and reported as revenue at fair value upon the earlier of the period in which a pledge becomes unconditional or the period in which the contribution is received. Contributions with donor-imposed restrictions are reported as temporarily or permanently restricted support, while contributions without donor-imposed restrictions are reported as unrestricted support.

Pledges Receivable: As the collection of pledges is estimated to be probable, the Foundation recorded a receivable of \$5,854,687, representing the present value of those pledges receivable at December 31, 2004. The fair value of pledges due within one year approximates its carrying value due to the short-term nature of the receivable. The remaining receivables have been discounted to reflect the present value of expected future cash flows using a discount rate of 5%.

Pledges receivable at December 31, 2004, are summarized as follows:

	<u>Less than 1 Year</u>	<u>1-5 Years</u>	<u>More than 5 Years</u>	<u>Total</u>
Pledges receivable	\$ 2,760,854	\$ 3,490,121	\$ 25,000	\$ 6,275,975
Unamortized discount	--	(300,572)	(5,412)	(305,984)
Present value of pledges receivable	2,760,854	3,189,549	19,588	5,969,991
Allowance for doubtful accounts	(55,217)	(59,694)	(393)	(115,304)
Pledges receivable, net	<u>\$ 2,705,637</u>	<u>\$ 3,129,855</u>	<u>\$ 19,195</u>	<u>\$ 5,854,687</u>

Unrestricted Net Assets: Unrestricted net assets represent funds which can be used by the Foundation for any purpose authorized by the Foundation's Board of Trustees.

Temporarily Restricted Net Assets: Temporarily restricted net assets represent funds which are restricted for a specific purpose determined by the donor.

Permanently Restricted Net Assets: Permanently restricted net assets are restricted to investment in perpetuity as endowment funds. The endowment funds represent contributions for which the donor has stipulated, as a condition of the gift that the principal be maintained intact and only the investment income (or portions thereof) of the funds be expended as the donor has specified, principally for scholarships and student financial aid.

Support to the College: During the years ended June 30, 2005 and 2004, the Foundation provided resources of \$1,834,000 and \$1,116,000 to or on behalf of the College for restricted purposes. Complete financial statements for the Foundation can be obtained from the Sinclair Community College Foundation at 444 W. Third St., Room 7230, Dayton, Ohio, 45402.

SUPPLEMENTARY INFORMATION

SINCLAIR COMMUNITY COLLEGE
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2005

Federal Grants/Pass-Through Grant/Program Title	<u>Federal CFDA Number</u>	<u>Pass-through Grantor's Numbers</u>	<u>Federal Expenditures</u>
U.S. Department of Education:			
Student Financial Aid Assistance Cluster:			
Federal Supplemental Educational Opportunity Grant	84.007		\$ 307,498
Federal Work-Study Program	84.033		52,500
Federal Pell Grant Program	84.063		14,006,487
Federal Direct Student Loans	84.268		<u>7,606,381</u>
Total student financial assistance cluster			<u>21,972,866</u>
Trio Cluster:			
Trio Upward Bound	84.047		322,232
Trio Student Support Services	84.042		<u>265,378</u>
Total Trio cluster			<u>587,610</u>
Adult Education State Grant Program, pass-through from State of Ohio Department of Education	84.002	063362-AB-SI-2002, 063362-AB-SI-2002 C, 063362-AB-SL-2002, 063362-AB-SI-2002 C, 063362-AB-SI-2003	463,323
Higher Education Instructional Aid Strengthening Institutions	84.031		320,988
Vocation Education Basic Grants to States, pass-through Department of Education	84.048	20-C2 2004	209,485
Tech Prep Education, pass-through from State of Ohio Department of Education	84.243	3E-00 2002 and 3ETC-2004	358,126
Child Care Access Means Parents in School	84.335		60,552
Twenty-First Century Community Learning Centers, pass-through from State of Ohio Department of Education	84.287		<u>286,896</u>
Total Department of Education			<u>24,259,846</u>

(Continued)

SINCLAIR COMMUNITY COLLEGE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2005

Federal Grants/Pass-Through Grant/Program Title	<u>Federal CFDA Number</u>	<u>Pass-through Grantor's Numbers</u>	<u>Federal Expenditures</u>
U.S. Department of Labor:			
Native American Employment and Training Program, pass-through from Montgomery County Department of Human Services	17.251	Resolution 02-1353	\$ 109,870
Workforce Investment Act Dislocated Workers, pass-through from Montgomery County Department of Human Services	17.260	Resolution 03-813	<u>59,728</u>
Total Department of Labor			<u>169,598</u>
Corporation for National and Community Service:			
Learn and Serve America Higher Education	94.005	03LHHDC001	14,973
Volunteers in Service to America, pass-through from AmeriCorps	94.013	03NDHTX001	<u>214,796</u>
Total Corporation for National and Community Service			<u>229,769</u>
U.S. Department of Health and Human Services:			
Temporary Assistance for Needy Families, pass-through from Montgomery County Department of Human Services	93.558	Resolution 02-2145 Resolution 02-1153	1,391,414
Child Care and Development Block Grant, pass-through from State of Ohio Department of Child Care and Development	93.575		<u>74,879</u>
Total Department of Health and Human Services			<u>1,466,293</u>
National Science Foundation - Education and Human Resources	47.076		929,143
National Urban and Rescue Response System, pass-through from Miami Valley Fire/EMS Alliance	83.526	9062000	57,324
U.S. Department of Agriculture - Summer Food Service Program for Children, pass-through from State of Ohio Department of Education	10.559	23 UN 2002	3,225
National Aeronautics and Space Administration Aerospace Education Services Program, pass-through from Cuyahoga Community College	43.001	NAS 3-02123-SCC	<u>21,803</u>
Total Federal Awards			<u>\$ 27,137,001</u>

SINCLAIR COMMUNITY COLLEGE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2005

NOTE 1 - BASIS OF PRESENTATION

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

SINCLAIR COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2005

1. Summary of Auditor's Results

- a. An unqualified opinion was issued on the financial statements of Sinclair Community College for the year ended June 30, 2005.
- b. An unqualified opinion was issued to Sinclair Community College for compliance with major programs.
- c. The audit did not disclose any noncompliance that is material to the financial statements.
- d. There were no audit findings required to be disclosed under OMB Circular A-133 Section 510(a).

e. Major Programs Identified:

U.S. Department of Education
Student Financial Aid Cluster: Federal Pell Grant Program 84.063, Federal Supplemental Educational Opportunity Grants 84.007, Federal Work-Study Program 84.033, Federal Direct Student Loans 84.268.

TRIO Cluster: Trio Upward Bound 84.047, Trio Student Support Services 84.042

- f. The dollar threshold used to distinguish between Type A and Type B programs was \$585,919.
- g. The auditee was considered a low-risk auditee.

2. Findings related to financial statements which are required to be reported in accordance with GAGAS:

None.

3. Findings and questioned costs for federal awards including audit findings as described in OMB Circular A-133 Section 510(a).

None.

PRIOR YEAR FINDINGS

No findings or questioned costs for federal awards including audit findings as defined in OMB Circular A-133 Section 510(a) were reported in the prior audit period.

REPORT OF INDEPENDENT AUDITORS 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

To the President and Board of Trustees
Sinclair Community College and
Betty Montgomery, Auditor of State

We have audited the financial statements of Sinclair Community College (the "College") as of and for the year ended June 30, 2005, and have issued our report thereon dated September 22, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 the Board of Trustees, the management of the College, the U.S. Department of Education, other applicable U.S. Government Agencies, and the Auditor of the State of Ohio and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Columbus, Ohio
September 22, 2005

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE WITH THE REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the President and Board of Trustees
Sinclair Community College and
Betty Montgomery, Auditor of State

Compliance

We have audited the compliance of Sinclair Community College (the "College") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The College's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable 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 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 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 each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the 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 College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the College's 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 the applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the College's internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees, the management of the College, the U.S. Department, of Education, other applicable U.S. Government Agencies, and the Auditor of the State of Ohio and is not intended to be and should not be used by anyone other than these specified parties.

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Columbus, Ohio
September 22, 2005



**Auditor of State
Betty Montgomery**

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SINCLAIR COMMUNITY COLLEGE

MONTGOMERY 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 30, 2005**