STARK STATE COLLEGE OF TECHNOLOGY

INDEPENDENT AUDITOR'S REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

Auditor of State
Betty Montgomery

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Board of Trustees
Stark State College of Technology

We have reviewed the Independent Auditor's Report of the Stark State College of Technology, Stark County, prepared by Gary B. Fink & Associates, Inc. for the audit period July 1, 2001 through June 30, 2002. 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 Stark State College of Technology is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

January 22, 2003

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STARK STATE COLLEGE OF TECHNOLOGY
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

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Stark State College of Technology
Management's Discussion and Analysis (MD&A)
For the Year Ended June 30, 2002

The discussion and analysis of the financial statements of Stark State College of Technology (the "College") provide an overview of financial activities for the year ended June 30, 2002. Management has prepared the financial statements and the related note disclosures along with this discussion and analysis. The responsibility for the completeness and fairness of this information rests with the preparers.

Using this Annual Report

This is the first year that the College is reporting its financial position under the new Governmental Accounting Standards Board (GASB) Statement 34 & 35 guidelines. Per GASB Statement 35 paragraph 11 the College is not required to restate prior period financial statements in the new format. In future years, when prior year information is available in the same format, a more detailed comparative analysis of financial data between statements will be presented.

This 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 statements provide information on the College as a whole, and present a snapshot of the College's finances. The following functions are included in the College's basic financial statements:

- Instruction
- Academic Support
- Student Services
- Institutional Support
- Operation and Maintenance of Plant
- Student Aid
- Public Service
- Bookstore Operations

The Statement of Net Assets acts much as a consolidated balance sheet does for a business. It shows the book value of all asset categories, and compares them to the amount of liabilities, with the residual difference, called Net Assets, being detailed by the type of commitment which gave rise to the underlying assets.

The Statement of Revenues, Expenses and Changes in Net Assets acts as a statement of the College's operations. Revenues and expenses on the accrual basis of accounting are detailed by operating type, and the reconciliation between the beginning and ending Net Assets is presented.

The Statement of Cash Flows presents the sources and uses of all cash transactions conducted by the College, broken down by type of functional activity. This statement assists the reader in determining the College's ability to generate future cash flows, meet it's obligations as they become due and assess the need for additional funding or financing.

These statements can help the reader understand what the financial health of the College is at the end of the fiscal year, as well as indicating the changes in financial position since the end of the prior year. Over time, increases in net assets, which are the result of the College's keeping expenses lower than revenues, indicate a strengthening of the College's financial health.

Analysis of Assets and Liabilities

All amounts that follow have been rounded to the nearest $1,000 for discussion purposes.

Total assets increased by $463,000 during the year to a year-end amount of $34,837,000. Of this amount, $163,000 was related to net capital asset increases. Cash and cash equivalents increased by $52,000. Student accounts receivable increased $432,000. Changes to all other asset categories amounted to a net decrease of $184,000.

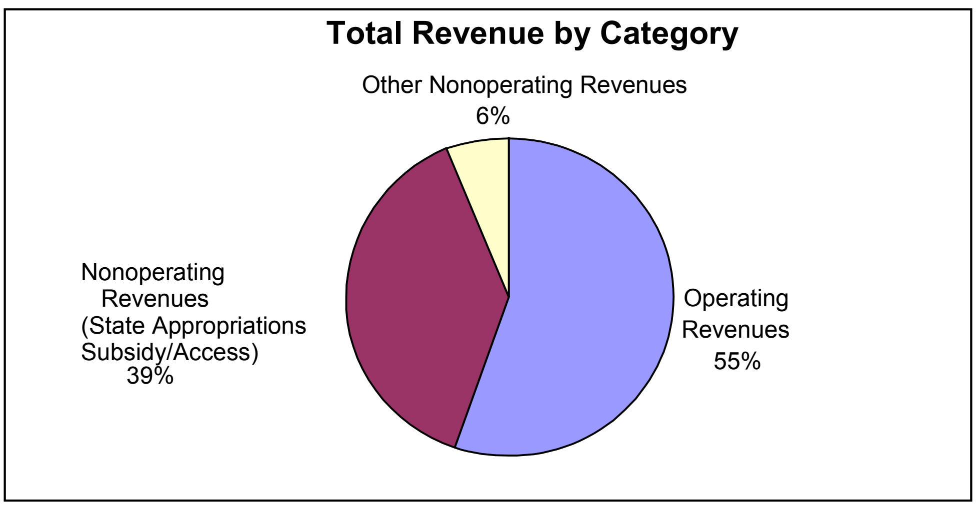
Total liabilities decreased since the beginning of the year by $410,000 to a year-end amount of $6,051,000. The noncurrent long-term liabilities decreased $126,000. Current liabilities decreased by $284,000 to $5,517,000.

Total net assets increased $874,000, of which $220,000 was related to net capital assets. Unrestricted net assets increased by $713,000 while net restricted assets decreased $59,000. The positive change in unrestricted net assets was the result of favorable operating results as presented in the analysis of the Statement of Revenues, Expenses and Changes in Net Assets described below.

Analysis of Revenues

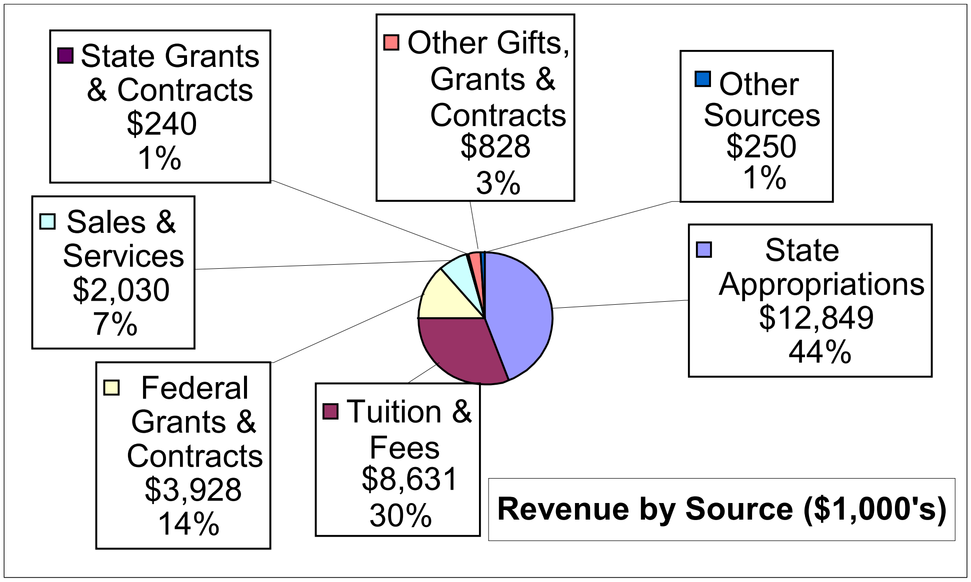
All amounts that follow have been rounded to the nearest $1,000 for discussion purposes.

The following chart provides ratios of the College's revenues as a whole by category for the year ended June 30, 2002:



The State Share of Instruction and Access Challenge funding are the statutory burden of the State of Ohio for operating the College. These are classified as nonoperating revenue under new generally accepted accounting principles, and they account for 38% of total revenue.

A traditional comparison of the College revenues focuses on noncapital revenue. These are the funds which are spent for ongoing operations. The total of these revenues increased $1.1 million this year (4%). This analysis will focus on the traditional revenues used for ongoing operations which are comparable to the prior year financial statements.



Tuition and student fees increased as a result of the Board of Trustees action to raise tuition for the Summer 2001 semester from $84.50 to $94 per credit hour, and again for the Spring 2002 semester to $97 per credit hour. These increases, coupled with increases in enrollment resulted in an additional $734,000 in this category over the previous year.

The State Share of Instruction and the Access Challenge state appropriations, two sources of funding dedicated to support the operations of the College, were reduced from prior year levels by $811,000.

Auxiliary enterprise revenue from the College bookstore increased this year by over $226,000 (12.6%) due to increased enrollment and higher wholesale prices tied to inflationary pressures in the textbook industry, which were passed through to the buyer under the bookstore's new pricing methodology.

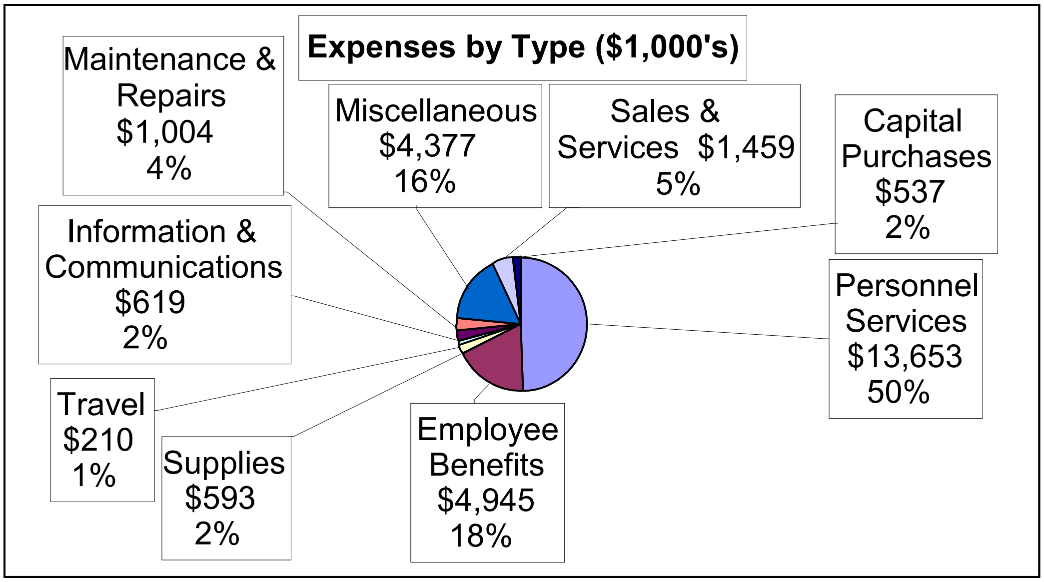
Federal grant increases of $871,000 were mainly the result of additional financial aid to students. Total state grants and contracts were $978,000 lower than the previous year. The majority of this amount ($882,000) was the result of a change in accounting practice whereby state financial aid grants to students are now considered agency transactions rather than restricted expenses. Some state grants were contingent upon receiving matching training dollars from private employers. Sales of training services to private employers suffered because of the recession. Other grants were reduced by the state of Ohio during mid-year across the board budget cuts.

Private gifts and grants were up $128,000 following the Stark State College Foundation's fundraising drive called "Changing Lives and Building Futures." Additional funds were raised for the Information Technologies Building, scheduled to open in August 2003.

Analysis of Expenses

All amounts that follow have been rounded to the nearest $1,000 for discussion purposes.

The focus of this analysis will be on the College's operating budget categories. These comprised 99% of the College's expenses for this year.



Overall, salary and wages increased 5.2%, which was the result of an average 4.5% general wage increase for full time employees and the addition of several new staff positions to the College. The instructional division of the College added an automotive program, in partnership with General Motors, and started an interactive media program. Additional adjunct faculty costs were incurred when larger than expected enrollment caused additional sections to be offered.

Employee benefits experienced a net increase of only 4.1% over the prior year. The major factors affecting benefits included, a disproportional increase in the cost of health care, increases in the retirement contribution rate for certain employees, and an increased use of adjunct faculty, which do not receive health care benefits, thereby decreasing the average net benefit cost per labor unit. The Public Employee Retirement System of Ohio contributions had been statutorily lowered during six months of the previous fiscal year. The contribution rates returned to their normal levels for the duration of the current year. Workers compensation rates, however, were reduced in addition to receiving premium credit refunds.

Miscellaneous expenses increased 5.5% over the prior year. Student aid is included under this category, and accounted for about four-fifths of the increase. Other expenses and computer software costs were down slightly from the prior year, while property and casualty insurance rates increased following the September 11, 2001 terrorist attacks, which caused major increases to property insurance rates industry-wide. Other costs which contributed to the categorical increase included legal fees, write-offs of bad debt, and contracted services.

Communications expenses were reduced following renegotiations of telecommunication contracts and changes in service providers. The reprographics department was reorganized, with certain functions being outsourced, resulting in additional savings. Postage costs increased due to USPS rate hikes and additional direct marketing efforts, coupled with increased enrollment-driven mailing increases. The categorical decrease was about 4.5%.

Travel costs were reduced by 19.8%. The instructional division developed in-house professional development programs which contributed to this reduction, as well as the travel freeze put into effect April 1, 2002.

Sales and services expenses increased by only 5.6%. This was a result of increases in labor costs and wholesale book prices.

Reductions to capital purchases paid from operating funds and increases in maintenance costs netted to a 2% decrease over the prior year. These items were inversely related, and both driven by the general budget freeze implemented in April 2002.

Analysis of Cash Flows

The College's liquidity improved slightly during the year, despite decreasing investment income, following 11 successive rate cuts by the Federal Reserve Board. The College relied more heavily on student tuition and fees this year in the face of tightening state budgets. Proceeds from state funding for general operations decreased over the prior year. These are classified as a noncapital financing source. Both tuition and bookstore proceeds increased this year primarily because of increased tuition rates and increased enrollment. Proceeds from contract training sales fell as a result of private employers reducing their training budgets due to the recession. Significant increases in the use of cash included larger payments for labor, materials and student aid.

Capital financing activities provided additional proceeds from state appropriations, which were used to pay for the acquisition of capital equipment, and to pay for the construction of two new classroom facilities. These purchases constituted the majority of the College's capital activity. There were no long-term debt additions resulting from the acquisition of capital assets during the year.

Financial Management Philosophy

Mission Statement: Stark State College of Technology provides accessible, quality associate degree programs; training and lifelong education in a diverse and supportive learning environment to foster success in a dynamic global economy.

During turbulent economic times, it is common for state funded two-year colleges to face funding cuts from the state as the demand for service rises. In an effort to continue providing the top level of educational quality to an increasing student body, philosophical and strategic questions must be answered consistently.

Affordability for the student is the primary access barrier. The State of Ohio recognized this when they created a separate appropriation designed to reduce tuition costs to students (the "Access Challenge" appropriation). One model for two-year college funding spreads the responsibility for costs equally between the state, the student and the community. Management subscribes to this philosophy, but the College does not have a local tax levy.

The number one financial goal of the College has been to maintain credit classroom activities, which is the College's chartered purpose. The College met this goal this year while achieving three objectives. The first objective was to keep the financial burden on the students as low as possible. Management recognized, however, that the College could not necessarily lower the burden "at all costs." The College saw the need to set a limit on the student portion of all budget shortfalls this past year. Management determined that the student burden should be limited to 1/3 of any budget deficit solution.

Another objective the College achieved was to provide funding that allowed departments to function adequately. Management determined that departments must be able to carry out their missions, but were forced to consider the benefits of additional effectiveness in light of cost constraints.

Finally, Management made the commitment to position the College to meet the goals of the Strategic Plan despite losses in state funding. The Strategic Plan provides for the development of programs to meet the needs of the twenty-first century workforce. Management believed that if it did not dedicate funding to the goals of the Strategic Plan and its implementation, then the Strategic Plan would not be as effective in meeting the needs of the students and the community.

Economic Challenges during the Fiscal Year

The economy went into slowdown in early 2001, and continued throughout the entire fiscal year. State revenues from taxes declined, the state saw escalating Medicaid costs that it could not control, and the Ohio Supreme Court ordered Ohio to spend more money for primary and secondary education. By the end of the state biennium which ended 6/30/01, the College had experienced the beginning of the state budget cuts. Going into the current year, across-the-board funding was being reduced for higher education. Individual programs were eliminated, and operating subsidies were decreased. Demand for services increased as the poor economy drove people to get retraining after losing jobs and to obtain better employment and new careers.

Proactive Response by Management

In order to meet the demand for additional services while funding was being reduced, Management took a proactive approach to combat impending budget deficits. The state budget problems were quantified and projected, and Management planned to improve operating efficiencies to overcome the loss of funding. The College maintained its commitment to limiting the burden on the students. The following chart represents the actions taken in anticipation and response to state funding cuts:

Year	State Action	Amount	Proactive Responses & Anticipatory Actions	Amount	%
00-01	1% State Share (Subsidy) cut	$ 104,388	Reduced Expenses (annualized)	$ 128,000	
			- Restructured communications agreements		
			- Cost reductions through better procurement		
			- Eliminated an employee benefit		
	subtotal	$ 104,388	subtotal	$ 128,000	
01-02	Cut carried forward from 00-01	$ 104,388	Reduced Expenses - carry forward	$ 128,000	
	Loss of Earned State Share	$ 31,268	Reduced Expenses - new line items	$ 520,424	
			- Eliminated personnel (through attrition)		
			- Shared health care costs with employees		
			- Reached employee wage agreement		
			- Reduced management supplemental contracts		
			- Reduced travel & professional development		
			- Reduced student scholarships		
	6% State Share cut (Oct 2001)	$ 621,440	Fund Balance usage	$ 176,596	
			- Transferred in funding from Auxiliary		
			- Transferred in funding from Plant Fund		
			Planned equipment purchase delays	$ 100,000	
	Access cut from 00-01 levels	$ 77,608	Budgeted increase in training sales	$ 250,000	
	6% Access cut (Oct 2001)	$ 76,533	Budgeted tuition increases	$ 956,000	
	subtotal	$ 911,237	subtotal	$ 2,131,020	
	LOSSES		**ACTIONS**		**%**
			Nontuition Actions	$ 1,303,020	**58%**
			Tuition Actions	$ 956,000	**42%**
00-02	Total Losses	$ 1,015,625	Total Actions	$ 2,259,020	**100%**

These actions and others effectively limited the rate of growth of expenses. One major action taken included negotiating a new salary and wage package that guaranteed across-the-board increases of 2.7% on January 1, 2002, 2.6% on January 1, 2003 and 2.5% on January 1, 2004. Productivity levels in terms of full-time equivalents (30 credit hours) generated per class section were also studied. The College implemented minimum class section sizes in Summer 2002, which led to additional cost savings. These two measures have allowed the College to control marginal labor costs, and constrain total labor costs by almost 3% since June 2002, without having to resort to layoffs.

Economic Outlook for the Future

Management foresees major funding problems in the near future with the State of Ohio. The economy has not bounced back this year like economists had predicted, and Management's projections are that the state will end fiscal year 2003 with at least a $1.2 billion deficit. The state must balance its budget by law, and it has almost reached its borrowing limits. The only options for the state are to either raise taxes or reduce expenses.

In the past two fiscal years, the College's funding was reduced in two separate state budget-balancing actions. Higher education budgets received disproportionately higher funding reductions in both years, because colleges and universities were able to increase fees to cover their costs. Currently there are no fee caps on the College, but because of recent increases across the state, there is the possibility of reinstatement of those caps.

Final Analysis

Stark State College is preparing to transition to its third president since its inception. The current President, Dr. John J. McGrath will be retiring after June 30, 2003. Funding uncertainty at the state level has made planning difficult. The economy has stretched the demand for the College's resources. Even with all the uncertainty that surrounds these situations, the College remains financially sound. Management has positioned the College to be able to withstand a 10% funding cut for the fiscal year that will end June 30, 2003. Between the increased productivity in the classroom, cost saving measures implemented, and increased enrollment (i.e.: additional tuition dollars), the College is maintaining its position during the state budget crisis. Beyond this, Management has developed an extremely wide-ranging set of contingency options to sustain additional budget cuts, fee caps and even possible fee rollbacks if enacted by the legislature, all without compromising the philosophy, goals, objectives and values as presented herein. Management firmly believes that the overall financial position of the College is strong, and that the College has demonstrated improvement in its financial condition since the beginning of the year. Debt has been reduced, cash reserves have increased, revenues expanded and expenses have been constrained. The College's enrollment, reserves and cash position are sufficient to ride out the current economic storm.

GARY B. FINK & ASSOCIATES, INC.

CERTIFIED PUBLIC ACCOUNTANTS
121 College Street
Wadsworth, Ohio 44281
330/336-1706 Fax 330/334-5118

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Stark State College of Technology
6200 Frank Avenue, NW
Canton, Ohio 44720-7299

We have audited the accompanying consolidated statement of net assets of the Stark State College of Technology (the College) as of and for the year ended June 30, 2002, as and the related consolidated statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audit provides 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 the Stark State College of Technology, as of June 30, 2002, and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, in fiscal year 2002, the College adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local Governments*, GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

Management's Discussion and Analysis on pages 1 through 7 are not a required part of the basic financial statements but are 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 supplementary information. However, we did not audit the information and express no opinion on it.

INDEPENDENT AUDITOR'S REPORT (continued)

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Stark State College of Technology taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements of Stark State College of Technology. The Schedule is the responsibility of the College's management. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2002 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.

GARY B. FINK & ASSOCIATES, INC.
Certified Public Accountants

December 23, 2002

FINANCIAL STATEMENTS

STARK STATE COLLEGE OF TECHNOLOGY
STATEMENT OF NET ASSETS
JUNE 30, 2002

ASSETS	
Current Assets	
Cash and Cash Equivalents	$5,635,268
Student Accounts Receivable, Net	3,513,040
Intergovernmental Receivables	1,027,981
Other Receivables, Net	213,237
Prepaid Expenses and Deferred Charges	70,423
Insurance Reserve	226,816
Inventories at Cost	211,977
Total Current Assets	10,898,742
Noncurrent Assets	
Restricted Cash and Cash Equivalents	82,083
Restricted Investments	970
Endowment Investments	230,934
Prepaid Expenses and Deferred Charges	9,004
Insurance Reserve	146,495
Capital Assets, Net	23,468,732
Total Noncurrent Assets	23,938,218
Total Assets	$34,836,960
LIABILITIES	
Current Liabilities	
Accounts Payable and Accrued Liabilities	827,550
Deferred Income	3,309,956
Accrued Salaries and Wages	486,087
Insurance Claims Payable	226,816
Vacation Benefits Payable	90,109
Deposits Held for Others	347,247
Long-Term Liabilities - Current Portion	229,348
Total Current Liabilities	5,517,113
Noncurrent Liabilities	
Long-Term Liabilities	534,051
Total Liabilities	6,051,164
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	23,265,980
Restricted for	
Nonexpendable	
Scholarships	263,029
Expendable	
Student Grants and Scholarships	50,971
Public Service	106,854
Instructional Departments	142,138
Student Services	1,916
Capital Projects	122,782
Student Loans	6,919
Other	6,208
Unrestricted	4,818,999
Total Net Assets	$28,785,796

The notes to the financial statements are an integral part of this statement.

STARK STATE COLLEGE OF TECHNOLOGY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

REVENUES:	
Operating Revenues:	
Student Tuition and Fees (Net of Scholarship Allowances of $1,136,807)	$8,631,052
Federal Grants and Contracts	3,927,773
State and Local Grants and Contracts	225,975
Nongovernmental Grants and Contracts	713,683
Sales and Services of Educational Departments	14,549
Auxiliary Enterprises: Bookstore	2,015,123
Other Operating Revenues	126,106
Total Operating Revenues	15,654,261
EXPENSES:	
Operating Expenses:	
Educational and General:	
Instruction	10,765,166
Academic Support	1,962,047
Student Services	1,832,106
Institutional Support	3,997,620
Operation and Maintenance of Plant	1,828,053
Student Aid	2,163,068
Public Service	2,152,404
Depreciation	1,065,746
Auxiliary Enterprises: Bookstore	1,800,042
Total Operating Expenses	27,566,252
Operating (Loss)	(11,911,991)
NONOPERATING REVENUES (EXPENSES)	
State Appropriations	11,205,532
State and Local Grants	14,198
Gifts	6,945
Investment Income (Net of Investment Expense of $57,399)	124,188
Interest on Capital Asset-Related Debt	(13,811)
Other Nonoperating Revenues (Expenses)	(301,985)
Net Nonoperating Revenues (Expenses)	11,035,067
(Loss) Before Other Revenues, Expenses, Gains or Losses	(876,924)
Capital Appropriations	1,643,490
Capital Grants and Gifts	107,691
Increase in Net Assets	874,257
NET ASSETS	
Net Assets, Beginning of Year, as Originally Reported	44,020,840
Cumulative Effects of Changes in Accounting Principle	
Revenue and Expense Recognition for Summer Semester	139,567
Capital Assets Depreciation and Other Adjustments	(16,248,868)
Net Assets, Beginning of Year, as Restated	27,911,539
Net Assets, End of Year	$28,785,796

The notes to the financial statements are an integral part of this statement.

STARK STATE COLLEGE OF TECHNOLOGY
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES:	
Tuition and Fees	$8,791,980
Grants and Contracts	4,355,602
Payments to Suppliers	(6,106,118)
Payments to Employees and for Benefits	(19,050,234)
Payments for Student Aid	(2,163,162)
Auxiliary Enterprise Charges: Bookstore	2,068,744
Sales and Service of Educational Activities	14,341
Other Receipts (Payments)	180,013
Net Cash (Used for) Operating Activities	(11,908,834)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
State Appropriations	11,215,532
Gifts and Grants for Other than Capital Purposes	(280,862)
Private Gifts for Endowment Purposes	20
Stafford and PLUS Loans Received	3,492,070
Stafford and PLUS Loans Disbursed	(3,492,070)
Agency Transactions	97,581
Net Cash Provided by Noncapital Financing Activities	11,032,271
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:	
Capital Appropriations	1,937,571
Capital Grants and Gifts Received	107,691
Purchases of Capital Assets	(1,206,691)
Principal Paid on Capital Debt and Leases	(79,502)
Interest Paid on Capital Debt and Leases	(13,811)
Net Cash Provided by Capital Financing Activities	745,258
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from Sales and Maturities of Investments	16,309
Interest on Investments	166,506
Net Cash Provided by Investing Activities	182,815
Net Increase in Cash	51,510
Cash - Beginning of Year	5,665,841
Cash - End of Year	$5,717,351
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH (USED FOR) OPERATING ACTIVITIES:	
Operating (Loss)	(11,911,991)
Adjustments to Reconcile Net (Loss) to Net Cash (Used For) Operating Activities:	
Depreciation Expense	1,065,746
Changes in Assets and Liabilities	
Receivables, Net	(633,669)
Inventories	(5,864)
Other Assets	54,798
Accounts Payable	(1,174,158)
Deferred Revenue	648,230
Compensated Absences	48,074
Net Cash (Used For) Operating Activities	($11,908,834)

The notes to the financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

1. DESCRIPTION OF THE ENTITY

Stark State College of Technology (the "College") was originally chartered in 1966 under provisions of the Ohio Revised Code as a Technical College. The College offers 42 associate degree programs and five certificate programs that prepare individuals to be technicians and paraprofessionals in business technologies, engineering technologies, health technologies and public service technologies. Degrees awarded are the Associate of Applied Science, Associate of Applied Business, Associate of Science and Associate of Technical Studies. The College also offers noncredit continuing education classes and customized contract training services to companies and employees in the region. A seven-member Board of Trustees governs the College, which is a political subdivision of the State of Ohio.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the College have been prepared in conformity with generally accepted accounting principles. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The College also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989 provided they do not conflict with or contradict GASB pronouncements. The more significant of the College's accounting policies are described below:

A. Basis of Presentation – 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. In accordance with GASB Statement No. 35, the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows are reported on a consolidated basis.

B. Measurement Focus - The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred. All significant interfund transactions have been eliminated.

C. Operating and Non-Operating Revenues and Expenses – Operating revenues are those that generally result from exchange transactions such as payments received for providing goods and services and payments made for goods or services. Non-operating revenues and expenses result from capital and related financing activities, noncapital financing activities including state appropriations or investing activities.

D. Deferred Income – Deferred income arises when assets are recognized before revenue recognition criteria have been satisfied. The unearned portion of student tuition and fees for the summer session and all of the recorded student tuition and fees resulting from early registration for the fall session have been deferred.

E. Investments – Except for nonparticipating investment contracts, investments are reported at fair value that is based on quoted market prices. Nonparticipating investment contracts such as overnight repurchase agreements are reported at cost.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

During fiscal year 2002, investments were limited to STAR Ohio, overnight repurchase agreements, mutual funds and donated common stock.

For purposes of the presentation on the Statement of Net Assets, investments with original maturities of three months or less at the time they are purchased by the College are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Inventories - Inventory consists principally of merchandise in the College's bookstore that is valued at cost on a first-in, first-out basis.

G. Capital Assets – Land; land improvements; buildings; infrastructure; equipment; and library books are stated at original acquisition costs when such information was available. In cases when original costs were not practicably determinable, estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition. Donated capital assets are capitalized at estimated fair market value on the date of the gift. When capital assets are sold or otherwise disposed of, the net carrying value of such asset is removed from the accounts and the Invested in Capital Assets – net of related debt 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:

Land Improvements	20 to 30 years
Buildings and Improvements	7 to 40 years
Equipment	5 to 15 years
Library Books	10 years
Infrastructure	20 to 50 years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements which extend the useful life or increase the capacity or operating efficiency of the asset are capitalized at cost. Infrastructure assets consisting of roads, sidewalks, parking lots, lighting systems and signage are capitalized and reported.

In prior fiscal years, the College had established a $1,000 capitalization threshold for equipment. Land, land improvements and buildings are capitalized at cost. Effective in fiscal year 2002, the College elected to increase the capitalization threshold for equipment to $5,000. Any equipment acquired in past fiscal years with an original cost less than $5,000 has been eliminated from the accounts. The College has also increased the capitalization threshold for buildings to $50,000 and infrastructure to $250,000. The approximate value of capital assets written off was $4,572,693.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Compensated Absences - Vacation leave and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by the employees if both of the following conditions are met:

1. The employees' rights to receive compensation are attributable to services already rendered.

2. It is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Other compensated absences with characteristics similar to vacation leave are those which are not contingent on a specific event outside the control of the employer and employee.

Further, sick leave and other similar compensated absences are those which are contingent on a specific event that is outside the control of the employer and employee. The College has accrued a liability for these compensated absences using the termination method when the following criterion is met:

1. The benefits are earned by the employees and it is probable that the employer will compensate the employees for the benefits through cash payments conditioned on the employees' retirement ("termination payments").

The sick leave liability has been based on the College's past experience of making termination payments for sick leave.

I. Net Assets – Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use. The College identifies net assets restricted as either nonexpendable or expendable. Nonexpendable net assets represent endowment contributions from donors that are permanently restricted as to principal. Expendable net assets relate to grants and contract activity, whose use is subject to externally imposed restrictions. Unrestricted net assets are not subject to restrictions and may be designated for specific purposes by the Board of Trustees.

The cumulative effect of applying GASB Statement No. 35 to the College's financial statements is reported as a restatement of beginning net assets. The following is a reconciliation of the total June 30, 2001 net assets as previously reported to the restated Net Assets – Beginning of the Year balance reported on the Statement of Revenues, Expenses and Changes in Net Assets:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

	June 30, 2001
Combined Net Assets, as Previously Reported	$44,020,840
Revenue and Expense Recognition for Summer Semester	139,567
Capital Asset Depreciation	(11,646,737)
Change in Capitalization Threshold	(4,602,131)
Combined Net Assets, Restated	$27,911,539

J. Grants and Scholarships – Student tuition and fees are presented net of grants and scholarships applied directly to student accounts.

K. Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

L. Accounting Pronouncements – For fiscal year 2002, the College has implemented Government Accounting Standards Board (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 – an Amendment of GASB Statement No. 34". Also adopted were two related GASB Statements: 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".

In May, 2002, GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units – an amendment of GASB Statement No. 14" was issued. This statement provides 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 a component unit 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 are effective for financial statements for periods beginning after June 15, 2003. The College believes, based on a preliminary assessment of the statement, that the Stark State College Foundation will be included as a component unit of the College in its financial statements beginning in fiscal year 2004.

3. CASH AND INVESTMENTS

A. Policies and Practices - It is the responsibility of the Business and Finance Department to deposit and invest the College's idle funds. The College's practice is to limit investments to United States Treasury notes and bills, collateralized certificates of deposit and repurchase agreements, insured and/or collateralized demand deposit accounts or obligations of other United States agencies for which the principal and interest is guaranteed by the United States Government. The College does not enter into reverse repurchase agreements.

The investment and deposit of College monies is governed by the Ohio Revised Code. In accordance with the Ohio Revised Code, only banks located in Ohio and domestic building and loan associations are eligible to hold public deposits. Also, the investment of the College's monies is restricted to certificates of deposit, savings accounts, money market accounts and the State Treasurer's Investment Pool (STAR Ohio), obligations of the United States Government or certain agencies thereof and certain industrial revenue bonds issued by other governmental entities. The College may also enter into repurchase agreements with any eligible depository for a period not exceeding thirty days. Public depositories must give security for all public funds on deposit. These institutions may specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities with the face value of which is at least 110 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. State law does not require security for the public deposits and investments to be maintained in the College's name.

B. Cash on Hand - At June 30, 2002, the College had $2,407 in undeposited cash on hand which is reported as "Cash" on the Statement of Net Assets.

C. Deposits - At June 30, 2002, the reported amount of the College's deposits was $(43,212) and the bank balance was $201,260. Of the bank balance, $100,000 was covered by federal depository insurance and $101,260 was uninsured and uncollateralized as defined by the GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements", because the collateral pledged by the financial institution or their trust departments or agents is not in the College's name. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the College to a successful claim by the FDIC.

3. CASH AND INVESTMENTS (continued)

D. Investments - The College's investments are categorized below to give an indication of the level of credit risk assumed at fiscal year end. Category 1 includes investments that are insured, registered or for which the securities are held by the College or its agents in the College's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the College's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the College's name. STAR Ohio is not classified since it is not evidenced by securities that exist in physical or book entry form.

	Category			Fair Market
	1	2	3	Value
Overnight Repurchase Agreements	$0	$0	$405,987	$405,987
Donated Common Stock	970	0	0	970
Mutual Funds	230,934	0	0	230,934
Subtotal	$231,904	$0	$405,987	$637,891
STAR Ohio				5,352,169
Total Investments				$5,990,060

The College has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during the fiscal year ended June 30, 2002. STAR Ohio is an investment pool managed by the State Treasurer's Office that allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price that is the price the investment could be sold for on June 30, 2002.

4. CAPITAL ASSETS

A summary of the changes in capital assets and related accumulated depreciation during fiscal year 2002 follows:

	Balance 06/30/2001	Additions	Deletions	Balance 06/30/2002
Land	$1,691,251	$177,672	$0	$1,868,923
Land Improvements	1,452,067	293,172	0	1,745,239
Buildings	26,961,404	1,573,313	0	28,534,717
Equipment	3,250,281	128,506	(507,676)	2,871,111
Library Books	20,967	917	0	21,884
Infrastructure	193,127	0	0	193,127
Construction in Progress	1,383,043	432,687	(1,377,192)	438,538
Total	34,952,140	2,606,267	(1,884,868)	35,673,539
Less Accumulated Depreciation				
Land Improvements	506,111	67,033	0	573,144
Buildings	8,996,940	731,259	0	9,728,199
Equipment	2,089,616	256,637	(507,676)	1,838,577
Library Books	6,271	2,126	0	8,397
Infrastructure	47,799	8,691	0	56,490
Total	11,646,737	1,065,746	(507,676)	12,204,807
Capital Assets Net	$23,305,403	$1,540,521	($1,377,192)	$23,468,732

5. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2002, is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Capital Lease Obligation	$280,631	$23,820	($86,731)	$217,720	$87,076
Compensated Absences	389,733	61,372	(13,298)	437,807	34,400
Early Retirement Payable	480,040	0	(372,168)	107,872	107,872
Total	$1,150,404	$85,192	($472,197)	$763,399	$229,348

5. LONG-TERM LIABILITIES (continued)

The College has the following future minimum payments for leases:

Fiscal Year Ending June 30,	
2003	$105,270
2004	102,459
2005	22,901
Total	230,630
Less Amount Representing Interest	(12,910)
Present Value of Minimum Lease Payments	$217,720

6. DEFINED BENEFIT PENSION PLANS

All employees of the College are eligible to participate in one of two cost-sharing, multiple employer defined benefit pension plans. Academic personnel participate in the State Teachers Retirement System (STRS Ohio) and nonacademic personnel participate in the Public Employees Retirement System (PERS Ohio).

A. State Teachers Retirement System

The College participates in the State Teachers Retirement System of Ohio (STRS Ohio), which is a cost-sharing, multiple employer public employee retirement system. STRS Ohio is a statewide retirement plan for certified teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency wholly controlled, managed and supported in whole, or in part, by the state or any political subdivision thereof. Any member who has (1) five years of service credit and attained age 60; (2) 25 years of service credit and attained age 55; or (3) 30 years of service credit regardless of age may retire. The maximum annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit”, the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest years’ salaries. The annual allowance is calculated by using a base percentage of 2.2 percent multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5 percent. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6 percent for 32 years, 2.7 percent for 33 years and so on) until 100 percent of final average salary is reached.

For members with 35 or more years of earned Ohio service, the first 30 years will be calculated at 2.5 percent instead of 2.2 percent.

6. DEFINED BENEFIT PENSION PLANS (continued)

Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

Eligible faculty of the College may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by the College. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or other Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of employment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Retirement benefits are annually increased by the greater of the amount of the change in the Consumer Price Index (CPI) or the cumulative CPI increases since retirement, less previous cost-of-living increases, up to a maximum of three percent of the original base benefit. The plan offers access to health care benefits for retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums.

A member with five or more years' credited service who becomes disabled is entitled to a disability benefit. Eligible spouses and dependents of active members who die before retirement may qualify for survivor benefits. A death benefit of $1,000 is payable to the beneficiary of each deceased retired member. Additional death benefit coverage of $1,000 or $2,000 can be purchased. Various other benefits are available to members' beneficiaries.

Benefits are established and may be amended by Chapter 3307, Revised Code.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2002, were 9.3 percent of covered payroll for members and 14 percent for employers. The College's contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2002, 2001 and 2000 were $756,840, $824,128 and $512,732, respectively, equal to the required contributions for each fiscal year.

6. DEFINED BENEFIT PENSION PLANS (continued)

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio' 2000 *Comprehensive Annual Financial Report* will be available after January 1, 2003, and can be requested by writing to STRS Ohio, 275 East Broad Street, Columbus, OH 43215-3371, or by calling (614)227-4090.

B. Public Employees Retirement System of Ohio

Nonacademic personnel of the College participate in the Public Employees Retirement System of Ohio (PERS Ohio), a cost-sharing, multiple-employer defined benefit pension plan administered by the Public Employees Retirement Board. PERS Ohio provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. PERS Ohio issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614)466-2085 or 1-800-222-7377.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension benefit obligations and the College is required to contribute 13.31 percent; 9.25 percent was the portion used to fund pension obligations. Contributions are authorized by state statute. The contribution rates are determined actuarially. The College's contributions for pension obligations to PERS Ohio for the fiscal years ended June 30, 2002, 2001 and 2000 were $447,637, $309,828 and $398,957, respectively, equal to the required contributions for each fiscal year.

7. POSTEMPLOYMENT BENEFITS

The College provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS Ohio), and to retired non-certified employees and their dependents through the Public Employees Retirement System (PERS Ohio). Coverage includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. Benefit provisions and the obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

Pursuant to the Ohio Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. For the fiscal year ended June 30, 2002, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the College, this amount equaled $358,509 during fiscal 2002.

7. POSTEMPLOYMENT BENEFITS (continued)

The balance in the Health Care Reserve Fund was $3.256 billion at June 30, 2001 (latest information available). For the year ended June 30, 2001, net health care costs paid by STRS Ohio were $300,772,000, and STRS Ohio had 102,132 eligible benefit recipients statewide.

The Public Employees Retirement System of Ohio (PERS Ohio) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and primary survivor recipients or such retirants. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Post-Employment Benefits by State and Local Governmental Employers". A portion of each employer's contribution to PERS Ohio is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The fiscal 2002 employer contribution rate was 13.31 percent of covered payroll; 4.3 percent was the portion that was used to fund health care for the fiscal year 2002. The College's actual contributions for fiscal year 2002 which were used to fund post-employment benefits were $213,668.

The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to PERS Ohio.

The following assumptions and calculations were based on PERS Ohio' latest actuarial review performed as of December 31, 2000. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25 percent of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2000 was 7.75 percent. An annual increase of 4.75 percent compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.75 percent base increase, were assumed to range from 0.54 percent to 5.1 percent. Health care costs were assumed to increase 4.75 percent annually.

OPEBs are advance-funded on an actuarially determined basis. As of December 31, 2000 (the latest information available), the actuarial value of PERS Ohio' net assets available for OPEB was $11,735.9 million. The number of active contributing participants statewide at December 31, 2000 was 411,076. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $14,364.6 million and $2,628.7 million respectively.

8. CONTINGENCIES

A. Federal and State Grants

The College participates in certain State and Federally-assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. In the opinion of the College, no material grant disbursements will be disallowed.

B. Litigation

The College is currently not a party to any legal proceedings.

9. RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft; damage to or destruction of assets, errors and omissions; employee injuries; and natural disasters. By maintaining comprehensive insurance coverage with private carriers, the College has addressed these various types of risk. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years. There has not been a significant reduction of coverage from the prior fiscal year.

The College is a member of the Stark County Schools Council of Governments, which was established to provide a partially self-funded health benefits program to its members. The College pays a monthly premium to the Council of Governments for its health care coverage. The health plan is self-sustaining through member premiums and reinsures through an insurance company to pay claims in excess of $200,000 per individual and $46,988,770 for the group as a whole.

The insurance claims payable of $226,816 is based on the requirements of GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The claims liability is based on an estimate supplied by the Council of Governments. A summary of the claims liability during the past two fiscal years are as follows:

	Balance at Beginning of Fiscal Year	Current Fiscal Year Claims	Claims Payments	Balance at End of Fiscal Year
2001	$185,334	$1,350,103	($1,335,143)	$200,294
2002	$200,294	$1,538,403	($1,511,881)	$226,816

10. RELATED ORGANIZATIONS

The Stark State College Foundation (the Foundation) is a not-for-profit organization which operates under a separate board exclusively for the benefit of the College and is therefore not included in the College's June 30, 2002 financial statements. At June 30, 2002, the total net assets of the Foundation, not included in the financial statements of the College, were $3,104,666. During the year ended June 30, 2002, the Foundation contributed to the College $253,195 for scholarships, professional development, instructional equipment and supplies, and other projects.

GARY B. FINK & ASSOCIATES, INC.

CERTIFIED PUBLIC ACCOUNTANTS
121 College Street
Wadsworth, Ohio 44281
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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Stark State College of Technology
6200 Frank Avenue, NW
Canton, Ohio 44720-7299

We have audited the financial statements of the Stark State College of Technology (the College), as of and for the year ended June 30, 2002, and have issued our report thereon dated December 23, 2002. As discussed in Note 2 to the financial statements, the College adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis for State and Local* Governments, GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis –for Public Colleges and* Universities, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures* as of and for the year ended June 30, 2002. 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 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 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 operations that we consider to be material weaknesses.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (continued)

This report is intended solely for the information and use of management, the Board of Trustees 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.

GARY B. FINK & ASSOCIATES, INC.
Certified Public Accountants

December 23, 2002

GARY B. FINK & ASSOCIATES, INC.

CERTIFIED PUBLIC ACCOUNTANTS
121 College Street
Wadsworth, Ohio 44281
330/336-1706 Fax 330/334-5118

REPORT ON COMPLIANCE WITH REQUIREMENTS APPILICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133*

Board of Trustees
Stark State College of Technology
6200 Frank Avenue, NW
Canton, Ohio 44720-7299

Compliance

We have audited the compliance of the Stark State College of Technology (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 each of its major federal programs for the year ended June 30, 2002. The College's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings. 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 Stark State College of Technology 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, 2002.

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133* (continued)

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 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.

This report is intended solely for the information and use of management, the Board of Trustees 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.

GARY B. FINK & ASSOCIATES, INC.
Certified Public Accountants

December 23, 2002

Stark State College of Technology
Schedule of Federal Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2002

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Receipts	Disbursements
U.S. Department of Education				
Student Financial Assistance Programs Cluster:				
Federal Work-Study Program	84.033	-	$174,705	$174,705
Federal Supplemental Educational Opportunity Grants	84.007	-	92,748	92,748
Federal Pell Grant Program	84.063	-	3,232,012	3,232,012
Federal Family Educational Loans	84.032	-	3,575,444	3,575,444
Total Student Financial Assistance Programs Cluster			7,074,909	7,074,909
Higher Education - Institutional Aid (Title III Strengthening Insitutions Program)	84.031	P031A990249	326,523	326,523
Passed Through Ohio Department of Education:				
Vocational Education - Basic Grants to States (Perkins Basic Grant)	84.048	VECPII-P2002-508	118,849	118,849
Tech-Prep Education (Transitions Grant)	84.243	VETP-2002-13-TG	31,599	31,599
Tech-Prep Education	84.243	VETP-2002-13-FPI	159,844	159,844
Total Tech-Prep Education			191,443	191,443
Total Federal Assistance - U.S. Department of Education			$7,711,724	$7,711,724

The note to this Schedule is an integral part of this Schedule.

STARK STATE COLLEGE OF TECHNOLOGY
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is a summary of the activity of the Stark State College of Technology's federal awards programs. The Schedule has been prepared on the accrual basis of accounting. The information in the Schedule is presented in accordance with requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

STARK STATE COLLEGE OF TECHNOLOGY

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §505

FOR THE FISCAL YEAR ENDED JUNE 30, 2002

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of auditor's report issued on the financial statements	Unqualified Opinion
(d)(1)(ii)	Were there any material weaknesses in internal control reported at the financial statement level?	No
(d)(1)(ii)	Were there any other reportable conditions in internal control reported at the financial statement level?	No
(d)(1)(iii)	Was there any material noncompliance reported at the financial statement level?	No
(d)(1)(iv)	Were there any material weaknesses in internal control over major programs reported?	No
(d)(1)(iv)	Were there any other reportable conditions in internal control over major programs reported?	No
(d)(1)(v)	Type of auditor's report issued on compliance for major programs	Unqualified Opinion
(d)(1)(vi)	Were there any reportable audit findings under §510?	No

STARK STATE COLLEGE OF TECHNOLOGY

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §505

FOR THE FISCAL YEAR ENDED JUNE 30, 2002
(CONTINUED)

(d)(1)(vii)	Major Programs:	Student Financial Assistance Programs Cluster: Federal Work-Study Program, CFDA #84.033; Federal Supplemental Educational Opportunity Grants, CFDA #84.007; Federal Pell Grant Program, CFDA #84.063; Federal Family Education Loans, CFDA #84.032
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > $300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

2. **FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

   None

3. **FINDINGS FOR FEDERAL AWARDS**

   None

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STARK STATE COLLEGE OF TECHNOLOGY

STARK 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
FEBRUARY 6, 2003