

Southern State Community College

Single Audit

July 1, 2004 through June 30, 2005

Fiscal Year Audited Under GAGAS: 2005

**BALESTRA, HARR & SCHERER, CPAs, INC.**

528 South West Street, P.O. Box 687  
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**Auditor of State  
Betty Montgomery**

Board of Trustees  
Southern State Community College  
100 Hobart Drive  
Hillsboro, Ohio 45133

We have reviewed the Independent Auditor's Report of the Southern State Community College, Highland County, prepared by Balestra, Harr & Scherer, CPAs, Inc. 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 Southern State 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

November 16, 2005

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SOUTHERN STATE COMMUNITY COLLEGE

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

**REPORT OF INDEPENDENT ACCOUNTANTS**

Board of Trustees  
Southern State Community College  
Highland County  
100 Hobart Drive  
Hillsboro, Ohio 45133

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Southern State Community College (the College), as of and for the year ended June 30, 2005, 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 opinions on these basic financial statements based on our audit. The Statement of Net Assets of the business-type activities and the discretely presented component unit of Southern State Community College as of June 30, 2004 and the related Statement of Activities and Cash Flows for the year then ended were audited by other auditors whose report dated October 1, 2004, expressed an unqualified opinion on those statements.

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 basic 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component unit of the College, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 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 and 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 the results of our audit.

The Management's Discussion and Analysis on pages 3-12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Trustees  
Southern State Community College  
REPORT OF INDEPENDENT ACCOUNTANTS  
Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The accompanying schedule of federal awards expenditures 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. The schedule of federal awards expenditures has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

As described in Note 3 to the basic financial statements, the College implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*.



Balestra, Harr & Scherer, CPAs, Inc.  
October 13, 2005

# SOUTHERN STATE COMMUNITY COLLEGE

## MANAGEMENT DISCUSSIONS AND ANALYSIS FISCAL YEAR ENDING JUNE 30, 2005

### Accounting Standards

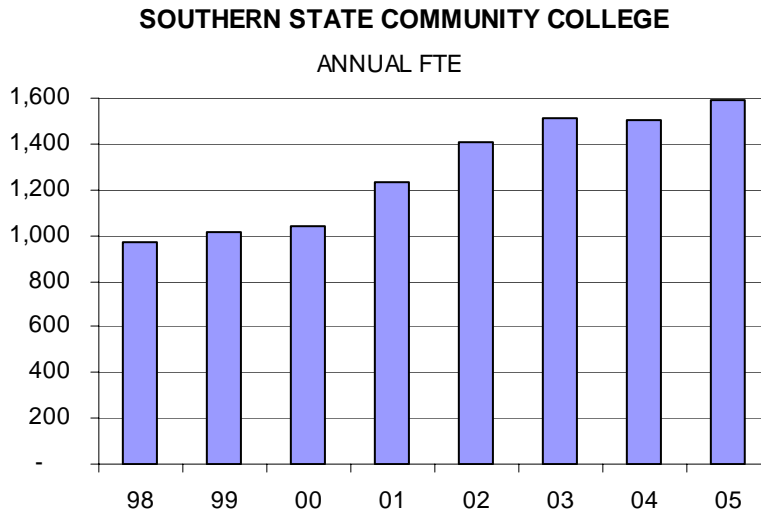
In June 1999, the Governmental Accounting Standards Board (GASB) released Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," which established a new reporting format for annual financial statements. In November 1999 GASB released Statement No. 35, "Basic Financial Statement and Management's Discussion and Analysis for Public Colleges and Universities," which applies the new reporting standards to public colleges and universities. Southern State Community College was required to adopt these new standards for this fiscal year ending June 30, 2002, and has done so.

The following discussion and analysis provides an overview of the College's financial activities including its discretely presented component unit, the Southern State Community College Foundation. This is the fourth year using the new format.

As required by the newly adopted accounting principles, the annual report consists of three basic financial statements that provide information on the College: the Statement of Net Assets; The Statement of Revenue, Expenses and Changes in Net Assets; and the Statement of Cash Flows. Each one of these statements will be discussed.

### Financial and Enrollment Highlights

- The College experienced enrollment growth just over 3%.
- The moderate enrollment and a modest 3.5% tuition increase resulted in an increase in gross student fee revenue of 10%.



- State Subsidy increased by 5.31%.
- Health care premiums increased 4.3% in FY 05 and will increase 7.8% in FY 06.
- The College received a \$1 million capital appropriation in FY 03 to assist in the construction of a new multi-purpose facility. The total budget for this project was \$4 million. The College has issued bonds in the amount of \$2.8 million and committed renovations and local funds to provide the balance of the funding needed for the project. Bids were opened in February of 2004 and the project was completed in March 2005. The College's Board of Trustees has restricted \$3 per credit hour student activity fee for the bond debt service and facilities operating costs. These restricted funds had a balance of \$96,669 as of June 30, 2005.



# SOUTHERN STATE COMMUNITY COLLEGE

## MANAGEMENT DISCUSSIONS AND ANALYSIS FISCAL YEAR ENDING JUNE 30, 2005

### Statement of Net Assets

The Statement of Net Assets includes assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. Net assets – the difference between assets and liabilities – is one way of measuring the financial health of the College.

	FY 05	FY 04	FY 03
<b>Current assets:</b>			
Cash and short-term investments	3,299,396	2,948,782	2,241,361
Receivables	2,942,808	1,434,508	1,191,977
Inventory, prepaids and other	205,262	174,543	227,869
Total current assets	6,447,466	4,557,833	3,661,207
<b>Non-current assets:</b>			
Investments	790,394	3,171,817	277,423
Other Assets	14,206	12,318	74,595
Capital assets, net of depreciation	18,254,093	15,275,461	13,873,882
Total non-current assets	19,058,693	18,459,596	14,225,900
Total assets	25,506,159	23,017,429	17,887,107
<b>Current liabilities</b>			
Accounts payable	479,041	997,361	464,752
Deferred Revenue	454,150	409,860	439,230
Long-term liabilities - current portion	206,200	222,277	80,449
Total current liabilities	1,139,391	1,629,498	984,431
<b>Non-current liabilities:</b>			
Long-term liabilities	3,155,589	3,265,119	294,543
Total liabilities	4,294,980	4,894,617	1,278,974
<b>Net assets:</b>			
Invested in plant	15,222,000	14,802,596	13,705,376
Restricted	2,908,195	970,137	953,395
Unrestricted	3,080,984	2,350,079	1,949,362
Total assets	21,211,179	18,122,812	16,608,133

Receivables include student accounts for tuition, daycare charges, company accounts for training, and grant receivables. This increase is also the result of modest increased in tuition.

Accounts Payable increased primarily due to the annual budget increase. Vendor accounts are paid well within 30 days.

Deferred Revenue is largely represented by tuition and fees generated from registrations for the next fiscal year, FY 06. These dollars will be recognized in the following year's financial statements.

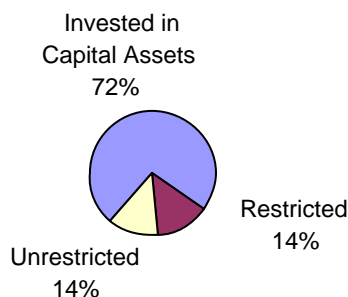
Long-term Liabilities include deferred compensation (accrued vacation and sick days) and the net present value of the future capital lease and the bond issue payments.

# SOUTHERN STATE COMMUNITY COLLEGE

## MANAGEMENT DISCUSSIONS AND ANALYSIS FISCAL YEAR ENDING JUNE 30, 2005

Net Assets include the net investment in capital assets and both restricted and unrestricted funds. Total Net Assets increased 17% from FY 04 to FY 05.

### Net Assets June 30, 2005



### Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the operating results of the College operations, as well as the non-operating revenues and expenses. Annual state appropriations, while budgeted for, are considered non-operating revenues according to generally accepted accounting principles.

	FY 05	FY 04	FY 03
Operating revenue:			
Net tuition and fees	4,361,492	3,962,692	3,767,373
Auxiliary	3,138,670	2,925,370	2,604,286
Grants and contracts	8,014,536	5,087,239	5,180,274
Other	38,318	84,979	144,407
	-----	-----	-----
Total	15,553,016	12,060,280	11,696,340
Operating Expenses	18,042,132	16,687,335	16,084,982
	-----	-----	-----
Net operating expenses	(2,489,116)	(4,627,055)	(4,388,642)
Non-operating revenues:			
State subsidy	4,498,658	5,062,250	4,553,202
Investment Income and Other	47,385	18,873	59,980
Capital Appropriations	1,031,440	1,060,611	-
	-----	-----	-----
Total	5,577,483	6,141,734	4,613,182
	-----	-----	-----
Increase in net assets	3,088,367	1,514,679	224,540
Net assets - Beginning of year	18,122,812	16,608,133	16,383,593
Net assets - End of year	21,211,179	18,122,812	16,608,133
	=====	=====	=====

Net tuition and fees represents gross student fee revenue of \$6,059,166 in FY 05 and \$5,561,853 in FY 04 net of scholarship allowances of \$1,697,674 and \$1,599,161 for those years respectively.

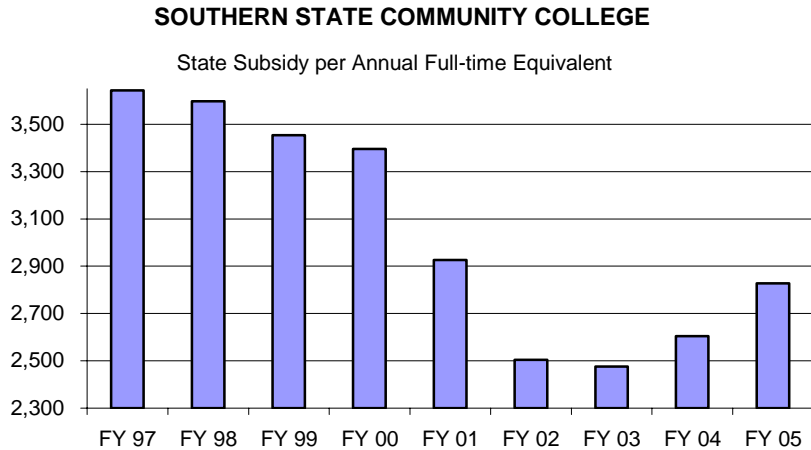
# SOUTHERN STATE COMMUNITY COLLEGE

## MANAGEMENT DISCUSSIONS AND ANALYSIS FISCAL YEAR ENDING JUNE 30, 2005

Auxiliary Revenue consists of Bookstore, Daycare, and non-grant portion of Corporate and Community Services. This increase was due to the growth in both enrollment and noncredit job training.

Operating Expense increases primarily reflect increases in salaries and benefits.

State Subsidy per full-time student has declined significantly in recent years. FY 05 saw a minor improvement in this area. The trend of declining funding per annual full-time equivalent began in 1998. In FY 97 State Subsidy represented 53% of Total General Fund Revenue. In FY 05 State Subsidy represented less than 40% of Total General Fund Revenue.



### Operating Expenses by Functional Classification

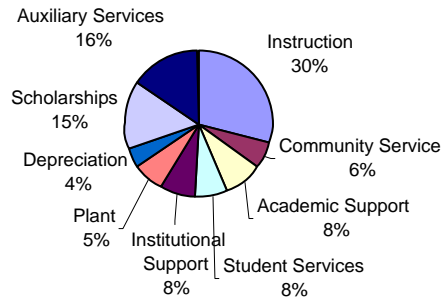
Historically public colleges and universities have presented expenditures based upon their functional classification. A recap of operating expenses based upon function is as follow:

	FY 05	FY 04	FY 03
Operating Expenses			
Instructional	5,367,250	4,878,336	4,810,538
Research	43	368	567
Community Service	1,124,551	1,078,954	1,256,909
Academic Support	1,501,651	1,481,015	1,309,452
Student Services	1,399,941	1,070,884	1,019,904
Institutional Support	1,386,555	1,286,652	1,147,410
Plant Operations	878,906	692,514	1,207,689
Depreciation	765,396	618,247	556,521
Scholarships	2,747,540	2,645,383	2,486,722
Auxiliary	2,870,299	2,934,982	2,289,270
Total Operating Expenses	18,042,132	16,687,335	16,084,982
	=====	=====	=====

# SOUTHERN STATE COMMUNITY COLLEGE

MANAGEMENT DISCUSSIONS AND ANALYSIS  
FISCAL YEAR ENDING JUNE 30, 2005

## Total Operating Expenses by Function June 30, 2005



### Operating Expenses by Natural Classification

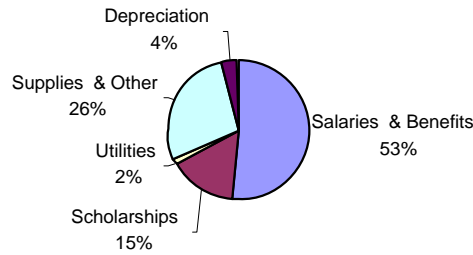
The presentation of operating expenses by natural classification, as used in most businesses is as follows:

Operating Expenses	FY 05	FY 04	FY 03
Salaries:			
Faculty	4,013,685	2,405,598	3,617,802
Exempt staff	1,735,317	1,783,331	1,685,774
Nonexempt wages	1,405,158	2,900,430	1,297,588
Benefits	2,389,087	2,230,685	1,964,906
Scholarships	2,747,540	2,645,383	2,486,722
Utilities	376,388	322,418	337,972
Supplies and other services	4,609,561	3,781,243	4,137,697
Depreciation	765,396	618,247	556,521
Total Operating Expenses	18,042,132	16,687,335	16,084,982
	18,042,132	16,687,335	16,084,982

# SOUTHERN STATE COMMUNITY COLLEGE

MANAGEMENT DISCUSSIONS AND ANALYSIS  
FISCAL YEAR ENDING JUNE 30, 2005

## Total Operating Expenses by Natural Classification June 30, 2005



### Statement of Cashflows

The Statement of Cashflows provides information about cash receipts and cash payments during the year. This statement also helps users assess the College's ability to generate net cash flows, its ability to meet obligations as they come due, and its need for external funding.

	FY 05	FY 04	FY 03
Cash Provided By (Used In):			
Operating activities	(3,641,580)	(3,457,972)	(4,231,610)
Non-capital financing activities	4,584,660	5,077,823	4,595,400
Capital and related financing activities	(3,059,625)	1,906,187	(242,524)
Investing Activities	(34,990)	(316,468)	(118,340)
Net Increase (decrease) in cash and cash equivalents	(2,151,535)	3,209,570	2,926
Cash and cash equivalents - Beginning of year	5,450,931	2,241,361	2,238,435
Cash and cash equivalents - End of year	3,299,396	5,450,931	2,241,361

The primary cash receipts from operating activities are student fees, grants and contracts.

State subsidy represents the primary non-operating source of funds.

Payments to employee are the primary use of funds.

### Economic Factors that will effect the Future

#### Challenges

- While the operation of the College has been developed to support its multi-campus structure, minimizing the additional operating costs to the College will continue to present challenges.
- The College has been committed to maintaining tuition at an affordable level for our service area. In the Fall of 2005 only one of the thirty-three non-levy supported state colleges or universities will have lower annual tuition. Maintaining this position will be a continuing challenge.
- The national and state economies create an uncertainty regarding appropriations, as well as student aid programs such as the Pell Grant and the Ohio Instructional Grant.

# SOUTHERN STATE COMMUNITY COLLEGE

## MANAGEMENT DISCUSSIONS AND ANALYSIS FISCAL YEAR ENDING JUNE 30, 2005

- There has been serious discussion regarding a restructuring of the state funding model. Maintaining an awareness of all substantial changes will be crucial.
- While the demand for non-credit instruction has significantly increased, making these ventures cost effective in light of the limited funding and market support is a challenge that the College will need to continue to meet.

### Opportunities

- Both state universities and private colleges have substantially increased tuition. This expands the existing market advantage for the Community College.
- The relatively low average class sizes represent some existing capacity for growth.
- The current facilities can accommodate growth in the near term. Efficient planning and scheduling, along with feasible master planning for capital funding should provide for continued growth within existing funding streams.
- The addition of multi-purpose facility on the College's Central Campus will enhance the College's ability to service students and the community.
- The College Foundation has provided a significant increase in the flow of private dollars to the College. These revenues present opportunities to control tuition increases and enhance the quality of our programs.
- New Health Science Programs have been developed which could have a positive effect on enrollment.

**SOUTHERN STATE COMMUNITY COLLEGE**

**STATEMENT OF NET ASSETS  
AS OF JUNE 30, 2005 and 2004**

	2005		2004	
	Southern State Community College	Component Unit SSCC Foundation	Southern State Community College	Component Unit SSCC Foundation
<b>ASSETS</b>				
CURRENT ASSETS:				
CASH	\$ 978,088	\$ -	\$ 87,414	\$ 55,094
CASH EQUIVALENTS	2,224,767	96,541	2,806,274	-
ACCOUNTS RECEIVABLE, NET	1,307,922	-	1,429,958	-
AMOUNT DUE FROM PRIMARY GOVERNMENT	35,481	-	-	-
PLEDGES RECEIVABLE, NET	1,565,431	33,974	-	4,550
INVENTORIES	176,749	-	133,849	-
OTHER RECEIVABLES	11,910	-	7,199	-
OTHER ASSETS	16,603	-	33,495	-
<b>TOTAL CURRENT ASSETS</b>	<b>6,316,951</b>	<b>130,515</b>	<b>4,498,189</b>	<b>59,644</b>
NONCURRENT ASSETS:				
RESTRICTED INVESTMENTS				
CASH EQUIVALENTS	-	-	2,502,149	-
OTHER	230,636	559,758	226,840	442,828
OTHER ASSETS	14,206	-	12,318	-
CAPITAL ASSETS, NET	18,254,093	-	15,275,461	-
<b>TOTAL NONCURRENT ASSETS</b>	<b>18,498,935</b>	<b>559,758</b>	<b>18,016,768</b>	<b>442,828</b>
<b>TOTAL ASSETS</b>	<b>24,815,886</b>	<b>690,273</b>	<b>22,514,957</b>	<b>502,472</b>
<b>LIABILITIES</b>				
CURRENT LIABILITIES:				
ACCOUNTS PAYABLE	6,303	-	554,131	-
ACCRUED LIABILITIES	429,292	-	400,782	-
HELD IN CUSTODY FOR OTHERS	43,446	-	42,448	-
BONDS PAYABLE, CURRENT PORTION	100,000	-	100,000	-
CAPITAL LEASE OBLIGATION, CURRENT PORTION	82,849	-	83,090	-
NOTES PAYABLE, CURRENT PORTION	23,351	-	39,187	-
DEFERRED REVENUE	454,150	-	409,860	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>1,139,391</b>	<b>-</b>	<b>1,629,498</b>	<b>-</b>
NONCURRENT LIABILITIES:				
BONDS PAYABLE, LONG-TERM PORTION	2,600,000	-	2,700,000	-
CAPITAL LEASE, LONG-TERM PORTION	216,004	-	300,258	-
NOTES PAYABLE, LONG-TERM PORTION	-	-	23,351	-
COMPENSATED ABSENCES	339,585	-	241,510	-
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>3,155,589</b>	<b>-</b>	<b>3,265,119</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>	<b>4,294,980</b>	<b>-</b>	<b>4,894,617</b>	<b>-</b>
<b>NET ASSETS</b>				
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	15,222,000	-	14,802,596	-
RESTRICTED FOR:				
NONEXPENDABLE:				
ENDOWMENTS	1,577,749	600,871	12,318	116,084
EXPENDABLE:				
LOANS	17,696	-	17,696	-
SCHOLARSHIPS AND FELLOWSHIPS	-	48,277	-	32,576
OTHER	663,602	-	791,463	-
UNRESTRICTED	3,039,859	41,125	1,996,267	353,812
<b>TOTAL NET ASSETS</b>	<b>\$ 20,520,906</b>	<b>\$ 690,273</b>	<b>\$ 17,620,340</b>	<b>\$ 502,472</b>

See accompanying notes to the basic financial statements

SOUTHERN STATE COMMUNITY COLLEGE

STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2005 and 2004

	2005		2004	
	Southern State Community College	Component Unit SSCC Foundation	Southern State Community College	Component Unit SSCC Foundation
<b>REVENUES</b>				
OPERATING REVENUES:				
STUDENT TUITION AND FEES (NET OF SCHOLARSHIP ALLOWANCES OF \$1,697,674 and \$1,599,161)	\$ 4,361,492	\$ -	\$ 3,962,692	\$ -
FEDERAL GRANTS AND CONTRACTS	3,255,642	-	3,097,650	-
STATE GRANTS AND CONTRACTS	2,472,204	-	1,333,425	-
LOCAL GRANTS AND CONTRACTS	213,804	-	181,831	-
PRIVATE GRANTS AND CONTRACTS	1,780,317	292,569	274,685	199,648
AUXILIARY SERVICES	3,138,670	-	2,925,370	-
OTHER OPERATING REVENUE	38,318	-	84,979	-
	<b>15,260,447</b>	<b>292,569</b>	<b>11,860,632</b>	<b>199,648</b>
<b>EXPENSES</b>				
OPERATING EXPENSES:				
INSTRUCTIONAL	5,367,250	-	4,878,336	-
RESEARCH	43	-	368	-
COMMUNITY SERVICE	1,124,551	-	1,078,954	-
ACADEMIC SUPPORT	1,501,651	-	1,481,015	-
STUDENT SERVICES	1,175,369	224,572	1,070,884	-
INSTITUTIONAL SUPPORT	1,386,555	-	1,286,652	-
PLANT OPERATIONS	878,906	-	692,514	-
DEPRECIATION	765,396	-	618,247	-
SCHOLARSHIPS	2,677,437	70,103	2,577,737	67,646
AUXILIARY ACTIVITIES	2,870,299	-	2,934,982	-
	<b>17,747,457</b>	<b>294,675</b>	<b>16,619,689</b>	<b>67,646</b>
	<b>(2,487,010)</b>	<b>(2,106)</b>	<b>(4,759,057)</b>	<b>132,002</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
STATE APPROPRIATIONS	4,498,658	-	5,062,250	-
INVESTMENT INCOME (NET OF INVESTMENT EXPENSE)	49,793	32,147	45,151	30,626
OTHER NONOPERATING EXPENSES	(192,315)	-	(70,046)	-
	<b>4,356,136</b>	<b>32,147</b>	<b>5,037,355</b>	<b>30,626</b>
<b>INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, LOSSES</b>	<b>1,869,126</b>	<b>30,041</b>	<b>278,298</b>	<b>162,628</b>
CAPITAL APPROPRIATIONS				
ADDITIONS TO PERMANENT ENDOWMENTS	1,031,440	-	1,060,611	-
	-	157,760	-	13,142
<b>INCREASE IN NET ASSETS</b>	<b>2,900,566</b>	<b>187,801</b>	<b>1,338,909</b>	<b>175,770</b>
<b>NET ASSETS</b>				
<b>NET ASSETS-BEGINNING OF YEAR</b>	<b>17,620,340</b>	<b>502,472</b>	<b>16,281,431</b>	<b>326,702</b>
<b>NET ASSETS-END OF YEAR</b>	<b>\$ 20,520,906</b>	<b>\$ 690,273</b>	<b>\$ 17,620,340</b>	<b>\$ 502,472</b>

See accompanying notes to the basic financial statements



**SOUTHERN STATE COMMUNITY COLLEGE  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2005 and 2004**

	<u>2005</u>		<u>2004</u>	
	<u>Southern State Community College</u>	<u>Component Unit SSCC Foundation</u>	<u>Southern State Community College</u>	<u>Component Unit SSCC Foundation</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
TUITION AND FEES	\$ 4,349,972	\$ -	\$ 3,921,463	\$ -
GRANTS AND CONTRACTS	5,057,125	-	4,733,998	-
PRIVATE GIFTS	1,565,431	263,145	-	200,457
PAYMENTS TO SUPPLIERS	(4,576,953)	-	(3,299,520)	-
PAYMENTS FOR UTILITIES	(376,388)	-	(313,965)	-
PAYMENTS TO EMPLOYEES	(7,603,913)	-	(6,851,288)	-
PAYMENTS FOR BENEFITS	(2,360,577)	-	(2,188,127)	-
PAYMENTS FOR SCHOLARSHIPS	(2,901,119)	(294,675)	(2,563,259)	(67,646)
AUXILIARY ENTERPRISE CHARGES:				
BOOKSTORES	3,198,054	-	2,882,506	-
OTHER RECEIPTS	38,318	-	87,409	-
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>(3,610,050)</b>	<b>(31,530)</b>	<b>(3,590,783)</b>	<b>132,811</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
STATE APPROPRIATIONS	4,498,658	-	5,062,250	-
PRIVATE GIFTS FOR ENDOWMENT PURPOSES	-	157,760	-	13,142
OTHER NONOPERATING EXPENSES	(72,756)	-	-	-
DEPOSITS TO AGENCY ACCOUNTS	998	-	2,431	-
<b>NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>4,426,900</b>	<b>157,760</b>	<b>5,064,681</b>	<b>13,142</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
PROCEEDS FROM CAPITAL DEBT	-	-	3,225,278	-
CAPITAL APPROPRIATIONS	1,031,440	-	908,814	-
PURCHASE OF CAPITAL ASSETS	(3,867,383)	-	(2,019,827)	-
PRINCIPAL PAID ON CAPITAL DEBT AND LEASE	(223,682)	-	(147,898)	-
INTEREST PAID ON CAPITAL DEBT AND LEASE	-	-	(60,180)	-
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(3,059,625)</b>	<b>-</b>	<b>1,906,187</b>	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
INTEREST ON INVESTMENTS	49,793	48,970	45,151	30,626
PURCHASE OF INVESTMENTS	-	(133,753)	(226,840)	(165,405)
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>49,793</b>	<b>(84,783)</b>	<b>(181,689)</b>	<b>(134,779)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(2,192,982)</b>	<b>41,447</b>	<b>3,198,396</b>	<b>11,174</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<b>5,395,837</b>	<b>55,094</b>	<b>2,197,441</b>	<b>43,920</b>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 3,202,855</b>	<b>\$ 96,541</b>	<b>\$ 5,395,837</b>	<b>\$ 55,094</b>
<b>RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>				
OPERATING INCOME/(LOSS)	(2,487,010)	(2,106)	(4,759,057)	132,002
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
DEPRECIATION EXPENSE	765,396	-	618,247	-
CHANGES IN ASSETS AND LIABILITIES:				
RECEIVABLES, NET	(1,483,587)	(29,424)	(77,065)	809
INVENTORIES	(42,900)	-	52,244	-
OTHER ASSETS	15,004	-	48,881	-
ACCOUNTS PAYABLE	(519,318)	-	520,313	-
DEFERRED REVENUE	44,290	-	(29,370)	-
COMPENSATED ABSENCES	98,075	-	35,024	-
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ (3,610,050)</b>	<b>\$ (31,530)</b>	<b>\$ (3,590,783)</b>	<b>\$ 132,811</b>

See accompanying notes to the basic financial statements

**Southern State Community College**  
**Notes to the Financial Statements**  
**June 30, 2005 and 2004**

**Note 1 - Summary of Significant Accounting Policies**

**Reporting Entity**

Southern State Community College (the College) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio and is considered to be a component unit of the primary reporting unit of the State of Ohio. The financial statements present the financial position and results of operations of the College along with the Southern State Community College Foundation (the Foundation), as a component unit of the College.

The College was chartered on February 21, 1975 as the Southern State General and Technical College. On October 21, 1977, the name of the College was officially changed to Southern State Community College.

The College operates under the direction of a nine member Board of Trustees who are appointed by the Governor with the advice and consent of the Ohio Senate. A President is appointed by the Board of Trustees to oversee day-to-day operations of the College. An appointed treasurer is the custodian of funds and is responsible for the fiscal control of the resources of the College.

The College was organized principally to offer educational programs beyond high school, normally not exceeding two years in duration, and leading to the award of an associate degree. The College offers programs in the liberal arts and sciences, technical training, and adult and continuing education, as outlined in ORC Section 3358.01.

**Basis of Presentation**

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No.34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis of Public Colleges and Universities*, issued in June and November 1999, respectively. The College reports as a special purpose government engaged solely in "business type activities" under GASB Statement No. 34.

**Basis of Accounting**

The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when obligations have been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by providers have been met. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

**Cash and Cash Equivalents**

The College's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents include the College's investment in the Star Ohio fund and money market funds, which amounted to \$2,321,308 and \$5,308,423 at June 30, 2005 and 2004, respectively.

**Investments**

The College makes investments in accordance with the Board of Trustees' policy, which conforms with the authority granted in the Ohio Revised Code. The purchase of specific investment instruments is at the discretion of the College's Treasurer within these policy guidelines. As of June 30, 2005 and 2004, investments held by the College were valued at \$790,394 and \$669,668, respectively. In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments are reported at fair value.

**Southern State Community College**  
**Notes to the Financial Statements**  
**June 30, 2005 and 2004**

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**Accounts and Pledges Receivables**

At June 30, 2005 and 2004, accounts receivable consist primarily of student tuition and fees, and intergovernmental grants and contracts. Student accounts receivable are reported net of an allowance for doubtful accounts of \$687,412 and \$572,194 at June 30, 2005 and 2004, respectively, whereas other receivables are reported at net, based on separate allowances for doubtful accounts estimated by management.

Pledges receivable are unconditional promises to give and are recognized at the present value of future cash flows. No allowance for uncollectible promises to give is considered necessary.

**Inventory**

Inventories consist principally of books and supplies of the bookstore and central stores inventory. Inventories, which are stated at lower of cost or market, are determined on the first-in-first-out (FIFO) basis.

**Restricted Assets**

Restricted assets represent assets whose use is restricted by external parties or by law through constitutional or enabling legislation.

**Capital Assets**

Capital assets with a unit cost of over \$5,000, and all library books, are recorded at cost at the date of acquisition, or, if donated, at fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expenditure categories. Expenditures for construction in progress are capitalized as incurred. Interest expense related to construction is capitalized net of interest income earned on resources set aside for this purpose. Routine maintenance and repairs are charged to expenses as incurred. Certain assets purchased through capital leases have been capitalized and included as part of equipment in the accompanying financial statements.

**Deferred Income**

Deferred revenue is comprised primarily of receipts relating to tuition and student fees in advance of the services to be provided and grant funds not earned as June 30, 2005 and 2004.

**Operating Revenues**

All revenues from programmatic sources are considered to be operating revenues. Included in non-operating revenues are state appropriations, investment income, and gifts. Gifts (pledges) that are received on an installment basis are recorded at net present value.

**Scholarship and Allowances and Student Aid**

Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of Colleges and University Business Officers (NACUBO). Certain aid such as loans, funds provided to students as awarded by third parties, and Federal Direct Lending is accounted for as a third party payment (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses, or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition.

**Pensions**

A pension cost provision is recorded when the related payroll is accrued and the obligation is incurred.

**Management Estimates**

The preparation of financial statements in conformity with accounting principles, generally accepted in the United States of America, requires the use of management estimates, primarily related to collectibility of receivables and compensated absences. Actual results could differ from those estimates.

**Southern State Community College**  
**Notes to the Financial Statements**  
**June 30, 2005 and 2004**

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**Federal Financial Assistance Programs**

The College participates in federally funded Pell Grants, SEOG Grants, and Federal Direct Lending programs. Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the U.S. Office of Management and Budget Revised Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and the Compliance Supplement. During fiscal years 2005 and 2004, the College distributed \$2,933,648 and \$2,631,956, respectively, for direct lending through the U.S. Department of Education, which is not included as revenues and expenditures on the accompanying financial statements.

**Net Assets**

GASB Statement No. 34 reports equity as “Net Assets” rather than “fund balance.” Net assets are classified according to external donor restrictions or availability of assets for satisfaction of College obligations. Invested in capital assets, net of related debt represents the College’s total investment in capital assets, net of outstanding debt obligations related to those capital assets. Nonexpendable restricted net assets are gifts that have been received for endowment purposes, the corpus of which cannot be expended. Expendable restricted net assets represent funds that have been gifted for specific purposes. Unrestricted net assets include resources which can be used at the College’s discretion.

**Note 2 - Cash, Cash Equivalents And Investments**

Statement No. 3 of the Government Accounting Standards Board requires government entities to categorize deposits and investments to give an indication of the level of risk assumed by the entity at year-end. These categories of risk follow:

	<u>Cash</u>	<u>Investments</u>
Category 1	Deposits that are either insured or collateralized with securities held by the College or by its agent in the College’s name.	Investments that are insured or registered, or securities held by College or by its agent in the College’s name.
Category 2	Deposits collateralized with securities held by the pledging financial institution’s trust department or agent in the College’s name.	Investments that are uninsured and registered, with securities held by the counterparty’s trust department or agent in the College’s name.
Category 3	Deposits that are uncollateralized (including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the College’s name).	Investments that are uninsured and unregistered, with securities held by the counterparty’s trust department or agent but not held in the College’s name.
Not Categorized		Investments in mutual funds, money markets and investment management funds are not categorized because they are not evidenced by securities that exist in physical or book entry form.

**Southern State Community College**  
**Notes to the Financial Statements**  
**June 30, 2005 and 2004**

**Note 2 - Cash, Cash Equivalents And Investments (Continued)**

At June 30, 2004, the carrying amount of the College and Foundation's cash deposits was \$142,508 and the bank balances was \$270,961. The differences represent normal reconciling items associated with timing differences and cash on hand. At June 30, 2004, \$100,000 of the bank balances was insured by the FDIC (Category 1); the remaining bank balances were Category 3. The following summarizes the carrying value and market value of investments:

<u>Description</u>	<u>Cost</u>	<u>Carrying Value</u>	<u>Market Value</u>
<b>June 30, 2004:</b>			
Star Ohio	\$5,308,423	5,308,423	\$5,308,423
Money market funds	23,505	23,505	23,505
Common/Preferred stocks & bonds	<u>646,163</u>	<u>646,163</u>	<u>646,163</u>
Total Investments	<u>\$5,978,091</u>	<u>5,978,091</u>	<u>\$5,978,091</u>

The College held \$5,308,423 in Star Ohio investments, which is an external investment pool and is considered a cash equivalent under GASB Statement No. 9. Oversight of the pool is through the Treasurer of State. The fair value of the College's position in the pool is the same as the value of its pool share. Such investments are not required to be categorized in accordance with Governmental Accounting Standards Board Statement No. 3. All other investments are Category 1.

***A - Primary Government - College***

At June 30, 2005, the carrying amount of the College's cash deposits was \$978,088 and the bank balance was \$1,674,398. The differences represent normal reconciling items associated with timing differences and cash on hand. At June 30, 2005, \$104,914 of the bank balance was insured by the FDIC (Category 1); the remaining bank balances were Category 3.

The College and Foundation held \$2,224,767 and \$79,718 in Star Ohio investments, respectively which is an external investment pool and is considered a cash equivalent under GASB Statement No. 9. Oversight of the pool is through the Treasurer of State. The fair value of the College and Foundation's position in the pool is the same as the value of its pool share. Such investments are not required to be categorized in accordance with Governmental Accounting Standards Board Statement No. 3. All other investments are Category 1. The following summarizes the market value of investments:

***Primary Government - College***

<u>Description</u>	<u>Market Value</u>	<u>Investment Maturities</u> <u>Less than 1 year</u>
<b>June 30, 2005:</b>		
Star Ohio	\$2,224,767	\$2,224,767
US Treasury Obligations	<u>230,626</u>	<u>230,626</u>
Total Investments	<u>\$2,455,393</u>	<u>\$2,455,393</u>

**Southern State Community College**  
**Notes to the Financial Statements**  
**June 30, 2005 and 2004**

**Note 2 - Cash, Cash Equivalents And Investments (Continued)**

***Component Unit – Foundation***

Description	Market Value	Investment Maturities (in years)		
		Less than 1	1-5	6-10
<b>June 30, 2005:</b>				
Star Ohio	\$ 79,718	\$ 79,718	\$ -	\$ -
Money market funds	16,823	16,823	-	-
FHLB Bonds	25,555	-	-	25,555
FNMA Bonds	15,094	15,094	-	-
Fannie Mae Bonds	10,081	-	10,081	-
Pimco Bond Funds	30,349	30,349	-	-
Federated US Govt Securities	117,612	-	117,612	-
Common Stock	4,529	4,529	-	-
Preferred Stock	47,840	47,840	-	-
Equity Funds	308,698	308,698	-	-
Total Investments	<u>\$ 656,299</u>	<u>\$ 503,051</u>	<u>\$ 127,693</u>	<u>\$ 25,555</u>

**Interest rate risk** – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

**Primary Government** - The College does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Component Unit** - As a means of limiting its exposure to fair value losses arising from rising interest rates, the Foundation’s investment policy provides for management of the portfolio to minimize principal fluctuations with a long-term investment mix and with an initial target allocation of 40 percent of its assets to be invested in fixed income investments. Cash equivalents should represent maturities of one year or less at the time of purchase. Also, no bond issues may be purchased with more than 10 years to maturity.

**Credit Risk** – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

**Primary Government** - The College has no investment policy that limits its investment choices. As of the fiscal years ended June 30, 2005 the College’s investments in Star Ohio and US Treasury Obligations both rated AAAM by Standard & Poor’s.

**Component Unit** - The Foundation’s investment policy limits investments to the following categories: Cash Equivalents, Fixed Income Assets, Equities assets, and Mutual Funds. Fixed income assets are subject to several limitations including only corporate debt issues that meet or exceed a credit rating of “A” from S&P or “A2” or higher from Moody’s. Preferred stocks should be rated “A” or better by Moody’s or S&P at the time of purchase. Equities holdings should represent companies meeting a minimum capitalization requirement of two hundred and fifty million with high market liquidity. Standard & Poor’s rated Star Ohio AAAM, Federated US Govt Securities AAAs/S2, and the FHLB, FNMA, Fannie Mae and Pimco bonds all AAA. The money market funds were unrated.

**Concentration of credit risk** – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer.

**Primary Government** - The College places no limit on the amount the College may invest in any one issuer. More than 5 percent of the College’s investments are in Star Ohio and Fifth Third US Treasury Obligations. These investments were 91% and 9%, respectively of the College’s total investments as of June 30, 2005.

**Southern State Community College**  
**Notes to the Financial Statements**  
**June 30, 2005 and 2004**

**Note 2 - Cash, Cash Equivalents And Investments (Continued)**

Component Unit - The Foundation's investment policy calls for initial targets of asset categories along with acceptable ranges in order to balance the risks as follows:

<u>Asset Category</u>	<u>Initial Target Allocation</u>	<u>Acceptable Range</u>
Cash	10%	1-10%
Fixed Income	40%	30-70%
Stocks	50%	30-70%

More than 5 percent of the Foundation's investments are in Star Ohio, Federated US Govt Securities, preferred stock and equities. These investments represent 12%, 18%, 7%, and 47%, respectively of the Foundation's total investments.

Custodial credit risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. For deposits, custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it.

Primary Government - Deposits. The College does not have a policy for custodial credit risk. As of June 30, 2005, \$1,569,484 of the College's bank balances was exposed to custodial credit risk as follows:

	<u>June 30, 2005</u>
Uninsured and collateral held by the pledging bank's trust department not in the College's name	\$1,569,484
	<u>\$1,569,484</u>

Component Unit - The Foundation's endowment investment policy provides that the investments will be made for the sole interest and exclusive purpose of providing benefits to the investment committee. All investments are held in the name of the Foundation.

**Note 3 – Change in Accounting Principle**

For the fiscal year ended June 30, 2005, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, custodial credit risk, interest rate risk, and foreign currency risk. This statement required the College to include certain additional disclosures regarding its exposure to these risks.

**Note 4 – Accounts Receivable**

Accounts Receivable at June 30, 2005 was comprised of the following:

	<u>Gross</u> <u>Receivables</u>	<u>Allowance For</u> <u>Doubtful</u> <u>Accounts</u>	<u>Net</u> <u>Receivables</u>
Current Receivables:			
Students	\$ 1,106,660	\$ (687,412)	\$ 419,248
Intergovernmental	111,055	-	111,055
Third Party	709,171	-	709,171
Other	68,448	-	68,448
Total Current Receivables	<u>\$ 1,995,334</u>	<u>\$ (687,412)</u>	<u>\$1,307,922</u>

**Southern State Community College**  
**Notes to the Financial Statements**  
**June 30, 2005 and 2004**

**Note 5 - Capital Assets**

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

<b><u>June 30, 2005:</u></b>	<b><u>Beginning</u></b>	<b><u>Additions</u></b>	<b><u>Deductions</u></b>	<b><u>Ending</u></b>
Land	\$ 767,441	\$ -	\$ -	\$ 767,441
Construction in Progress	1,144,164	-	(1,144,164)	-
Non-depreciable artwork	<u>47,500</u>	<u>450</u>	-	<u>47,950</u>
Total cost of nondepreciable capital assets	1,959,105	450	(1,144,164)	815,391
Building and Improvements	18,531,463	4,601,639	-	23,133,102
Equipment	1,270,107	243,775	-	1,513,882
Library books	384,733	16,828	-	401,561
Vehicles	<u>214,714</u>	<u>25,500</u>	-	<u>240,214</u>
Total cost of depreciable capital assets	<u>20,401,017</u>	<u>4,887,742</u>	-	<u>25,288,759</u>
Total cost of capital assets	22,360,122	4,888,192	(1,144,164)	26,104,150
Less accumulated depreciation				
Buildings and Improvements	(6,053,673)	(541,602)	-	(6,595,275)
Equipment	(542,104)	(180,538)	-	(722,642)
Library books	(363,535)	(6,173)	-	(369,708)
Vehicles	<u>(125,349)</u>	<u>(37,083)</u>	-	<u>(162,432)</u>
Total accumulated depreciation	<u>(7,084,661)</u>	<u>(765,396)</u>	-	<u>(7,850,057)</u>
Net capital assets	<u>\$15,275,461</u>	<u>\$4,122,796</u>	<u>\$(1,144,164)</u>	<u>\$18,254,093</u>
<b><u>June 30, 2004:</u></b>				
Land	\$ 767,441	\$ -	\$ -	\$ 767,441
Construction in Progress	-	1,144,164	-	1,144,164
Non-depreciable artwork	<u>47,500</u>	-	-	<u>47,500</u>
Total cost of nondepreciable capital assets	814,941	1,144,164	-	1,959,105
Building and Improvements	18,198,560	332,903	-	18,531,463
Equipment	727,347	542,760	-	1,270,107
Library books	384,733	-	-	384,733
Vehicles	<u>214,714</u>	-	-	<u>214,714</u>
Total cost of depreciable capital assets	<u>19,525,354</u>	<u>875,663</u>	-	<u>20,401,017</u>
Total cost of capital assets	20,340,295	2,019,827	-	22,360,122
Less accumulated depreciation				
Buildings and Improvements	(5,584,149)	(469,524)	-	(6,053,673)
Equipment	(434,071)	(108,033)	-	(542,104)
Library books	(357,377)	(6,158)	-	(363,535)
Vehicles	<u>(90,816)</u>	<u>(34,533)</u>	-	<u>(125,349)</u>
Total accumulated depreciation	<u>(6,466,413)</u>	<u>(618,248)</u>	-	<u>(7,084,661)</u>
Net capital assets	<u>\$13,873,882</u>	<u>\$ 1,401,579</u>	<u>\$ -</u>	<u>\$15,275,461</u>



**Southern State Community College**  
**Notes to the Financial Statements**  
**June 30, 2005 and 2004**

**Note 5 - Capital Assets (Continued)**

The following estimated useful lives are used to compute depreciation:

Buildings and Improvements	20 - 40 years
Library books	7 years
Equipment and Vehicles	5 - 15 years

**Note 6 - State Support**

The College is a state-assisted institution of higher education and receives a student-based subsidy from the State of Ohio, as determined annually based upon a formula devised by the Ohio Board of Regents.

In addition to the student subsidies, the State of Ohio provides the funding for the construction of major plant facilities on the College's campus. The funding is obtained from the issuance of revenue bonds by the Ohio Public Facilities Commission (OPFC), which in turn causes the construction and subsequent lease of the facility by the Ohio Board of Regents. Upon completion of a facility, the Board of Regents turns over control to the College, which capitalizes the cost thereof. Neither the obligation for the revenue bonds issued by the Ohio Public Facilities Commission nor the annual debt service charges for principal and interest on the bonds are reflected in the College's financial statements. These are currently being funded through appropriations to the Board of Regents by the General Assembly.

The facilities are not pledged as collateral for the revenue bonds. Instead, the bonds are supported by a pledge of monies in the Higher Education Bond Service Fund established in the custody of the Treasurer of State. If sufficient monies are not available from this fund, a pledge exists to assess a special student fee uniformly applicable to students in state assisted institutions of higher education throughout the state. As a result of the above-described financial assistance provided by the State of Ohio to the College, outstanding debt issued by the Ohio Public Facilities Commission is not included on the College's financial balance sheet.

**Note 7 - Capital Leases**

The College is obligated under certain leases accounted for as capital leases. The leased assets have a carrying value of approximately \$425,277. The related lease obligations are accounted for in the plant fund. The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of June 30, 2005:

<u>Years Ended June 30,</u>	<u>Amount</u>
2006	\$ 97,597
2007	97,597
2008	97,597
2009	<u>25,527</u>
Total minimum lease payments	318,318
Less: Amount representing interest	<u>(19,465)</u>
Present value of minimum lease payments	<u>\$298,853</u>

**Southern State Community College**  
**Notes to the Financial Statements**  
**June 30, 2005 and 2004**

**Note 8 - Retirement Plans**

**Public Employees Retirement System (OPERS)**

The College's faculty is covered by the State Teachers Retirement Systems of Ohio (STRS). Substantially all other employees are covered by the Ohio Public Employees Retirement System (OPERS). This retirement program is a statewide cost-sharing multiple employer defined benefit pension plans. OPERS 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 state statute. OPERS issues separate, publicly-available financial reports that include financial statements and required supplementary information. That report may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or calling (614) 222-6705 or (800) 222-7377.

The Revised Code of Ohio (ORC) provides OPERS statutory authority for employee and employer contributions. The required contribution rates for plan members and employers for calendar year 2004 were 8.5% and 13.31% of covered payroll, respectively. Contributions made by the College, which represent 100% of the required contributions, for the years ended June 30, 2005, 2004 and 2003 were \$322,824, \$295,557, and \$267,864, respectively.

**State Teachers Retirement System (STRS)**

The College faculty are covered under the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad Street, Columbus, Ohio 43215-3371 or calling (614) 227-4090 or (888) 227-7877.

Effective July 1, 2001, two new plan options were offered to selected members. New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**Southern State Community College**  
**Notes to the Financial Statements**  
**June 30, 2005 and 2004**

**Note 8 - Retirement Plans (Continued)**

**State Teachers Retirement System (STRS) (continued)**

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's beneficiary is entitled to receive the member's account balance.

Effective July 1, 2003, the member contribution rate was increased to the statutory maximum of 10%. The College was required to contribute 14%. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The College's required contributions for pension obligations for the fiscal years ended June 30, 2005, 2004, and 2003 were \$632,153, \$623,998, and \$607,441, respectively.

**Note 9 - Other Postemployment Benefits**

**Public Employees Retirement System (OPERS)**

OPERS provides postretirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit. 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 postemployment benefit (OPEB) as described in GASB Statement No. 12, *Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employers*. A portion of each employer's contribution to OPERS is set aside for funding of post retirement health care. The ORC provides statutory authority for employer contributions. The 2004 employer contribution rate for state employers was 13.31% of covered payroll; 4.0% was the portion that was used to fund health care for the year. The ORC provides statutory authority requiring public employers to fund postretirement health care through their contributions to OPERS.

**State Teachers Retirement System (STRS)**

STRS Ohio provides access to health care benefits for retirees who participate in the Defined Benefit or Combined Plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Ohio Revised Code, STRS Ohio has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of monthly premiums. The Ohio Revised Code grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll. For the fiscal year ended June 30, 2004, the board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion on June 30, 2004. For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000. There were 111,853 eligible benefit recipients.

**Southern State Community College**  
**Notes to the Financial Statements**  
**June 30, 2005 and 2004**

**Note 10 - Compensated Absence**

College faculty and support staff accrue vacation benefits; however, vacation carryover balances are limited to a maximum of 15 days. For all classes of employees, any earned but unused vacation benefit is payable upon termination. Sick leave may be accrued without limit. However, earned but unused sick leave benefits are payable only upon retirement from the College. The amount of sick leave benefit payable at retirement is one fourth of the value of the accrued but unused sick leave up to a maximum of 260 hours.

The College accrues sick leave liability for those employees who are currently eligible to receive termination payments as well as other employees who are expected to become eligible to receive such payments. This liability is calculated using the "vesting method" which is set forth in Appendix C, Example 5 of GASB Statement No. 16, *Accounting for Compensated Absences*. Under the vesting method, the College calculates the probability factor that employees will meet retention and eligibility requirements.

The liability for the cost of vacation and sick leave benefits is approximately \$ 339,585 and \$241,510 as of June 30, 2005 and 2004, respectively.

**Note 11 - Bonds Payable**

During fiscal year ended June 30, 2004, the College issued General Receipts Bonds, Series 2003. The following summarizes bonds payable as of June 30, 2004:

	<u>Balance</u> <u>June 30, 2004</u>	<u>Additions/</u> <u>(Deletions)</u>	<u>Balance</u> <u>June 30, 2005</u>	<u>Current</u> <u>Portion</u>	<u>Non-current</u> <u>Portion</u>
Series 2003 bonds with interest ranging from 1.65% - 5.00%, due serially through 2023	\$ <u>2,800,000</u>	<u>\$(100,000)</u>	<u>\$2,700,000</u>	<u>\$100,000</u>	<u>\$2,600,000</u>

Principal and interest amounts due within each of the next five years and thereafter on obligations outstanding at June 30, 2005, are as follows:

<u>Years Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>
2006	100,000	117,710
2007	100,000	115,510
2008	105,000	112,866
2009	105,000	109,795
2010	110,000	106,325
2011 and thereafter	<u>2,180,000</u>	<u>838,347</u>
Total	<u>\$2,700,000</u>	<u>\$1,400,553</u>

**Southern State Community College**  
**Notes to the Financial Statements**  
**June 30, 2005 and 2004**

**Note 11 - Bonds Payable** (Continued)

Mandatory Redemption. The Series 2003 bonds stated to mature on December 1, 2023 is subject to mandatory sinking fund redemption on December 1 of the following years:

<u>Year</u>	<u>Amount</u>
2014	\$135,000
2015	140,000
2016	145,000
2017	155,000
2018	165,000
2019	170,000
2020	180,000
2021	190,000
2022	200,000
2023	210,000

**Note 12 - Risk Management**

The College is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters, for which the College carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

**Note 13 - Reclassifications**

Certain reclassifications have been made to the 2004 financial statement presentations to conform with the 2005 financial statement presentations.

Southern State Community College  
Highland County, Ohio  
Schedule of Federal Awards Expenditures  
For the Year Ended June 30, 2005

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements	Non-Cash Disbursements
<b>United States Department of Education</b>				
<i>Direct from the Federal Agency</i>				
<i>Student Financial Aid Cluster:</i>				
Federal Supplemental Educational Opportunity Grants	NA	84.007	\$165,870	\$0
Federal Direct Student Loans	NA	84.268	2,933,648	0
Federal Work-Study Program	NA	84.033	63,568	0
Federal Pell Grant Program	NA	84.063	2,910,273	0
<i>Total Student Financial Aid Cluster</i>			<u>6,073,359</u>	<u>0</u>
<i>Passed through the Ohio Department of Education</i>				
Adult Education_State Grant Program	067694-ABS1	84.002	223,477	0
<i>Subtotal</i>			<u>223,477</u>	<u>0</u>
<b>Total United States Department of Education</b>			6,296,836	0
<b>United States Department of Agriculture</b>				
<i>Passed through the Ohio Department of Education</i>				
Child Care Food Program	135426-CCMN	10.558	0	9,575
Child Care Food Program	135426-LUCN	10.558	0	932
<b>Total United States Department of Agriculture</b>			<u>0</u>	<u>10,507</u>
<b>United States Appalachian Regional Commission</b>				
<i>Direct from Federal Government</i>				
Appalachian Regional Development	NA	23.001	116,280	0
<b>Total United States Appalachian Regional Commission</b>			<u>116,280</u>	<u>0</u>
<b>United States Corporation for National and Community Service</b>				
<i>Direct from Federal Government</i>				
Volunteers in Service for America	O4VSN0H089	94.013	3,269	0
<b>Total United States Corporation for National and Community Service</b>			<u>3,269</u>	<u>0</u>
<b>Total Federal Financial Assistance</b>			<u>\$6,416,385</u>	<u>\$10,507</u>

Legend:

N/A = not applicable, received direct from federal government

See accompanying notes to the Schedule of Federal Awards Expenditures

**SOUTHERN STATE COMMUNITY COLLEGE**  
**HIGHLAND COUNTY**  
**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES**  
For the Year Ended June 30, 2005

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying Schedule of Federal Awards Expenditures is a summary of the activity of the College's federal award programs. The schedule has been prepared on the cash basis of accounting.

**NOTE 2 – FEDERAL DIRECT STUDENT LOANS**

The College participates in the Federal Direct Student Loan Program. The dollar amounts listed in the Schedule of Federal Awards Expenditures represents new loans advanced during the fiscal year ended June 30, 2005. The College is a direct lender for these loan funds; however, they are not responsible for collecting these loans in future periods.

**NOTE 3 – CHILD CARE FOOD SUBSIDY**

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. Monies are commingled with state grants. It is assumed federal monies are expended first. At June 30, 2005, the College had no significant fund commodities in inventory.

**BALESTRA, HARR & SCHERER, CPAs, INC.**  
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees  
Southern State Community College  
Highland County  
100 Hobart Drive  
Hillsboro, Ohio 45133

We have audited the financial statements of the business-type activities and the discretely presented component unit of the Southern State Community College (the College) as of and for the year ended June 30, 2005, and have issued our report thereon dated October 13, 2005, in which we indicated the College adopted GASB Statement No. 40. 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**

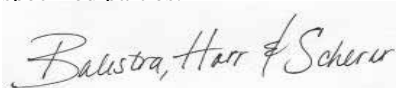
In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting.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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the College's basic 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*.

We noted certain matters that we reported to management of the College in a separate letter dated October 13, 2005.

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



Balestra, Harr & Scherer, CPAs, Inc.  
October 13, 2005



# BALESTRA, HARR & SCHERER, CPAs, INC.

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Piketon, Ohio 45661

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

Board of Trustees  
Southern State Community College  
Highland County  
100 Hobart Drive  
Hillsboro, Ohio 45133

### **Compliance**

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

In our opinion, Southern State Community College complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

### **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 the internal control over compliance in accordance with OMB Circular A-133.

Board of Trustees

Southern State Community College

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

Page 2

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

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

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.  
October 13, 2005

**SOUTHERN STATE COMMUNITY COLLEGE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**OMB CIRCULAR A-133 SECTION .505**  
**FOR THE YEAR ENDED JUNE 30, 2005**

**1. SUMMARY OF AUDITOR S RESULTS**

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Program s Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under section .510?	No
(d)(1)(vii)	Major Programs (list):	Student Financial Aid Cluster: Federal Supplemental Educational Opportunity Grants, CFDA# 84.007; Federal Direct Student Loans, CFDA #84.268; Federal Work-Study Program, CFDA# 84.033; Federal Pell Grant Program, CFDA# 84.063
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee ?	Yes

**SOUTHERN STATE COMMUNITY COLLEGE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**OMB CIRCULAR A-133 SECTION .505**  
**FOR THE YEAR ENDED JUNE 30, 2005**

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

Finding Number	None
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**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

Finding Number	None
CFDA Title and Number	
Federal Award Number/Year	
Federal Agency	
Pass-Through Agency	



**Auditor of State  
Betty Montgomery**

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Facsimile 614-466-4490

**SOUTHERN STATE COMMUNITY COLLEGE  
HIGHLAND 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 6, 2005**