

SINCLAIR COMMUNITY COLLEGE
Dayton, Ohio

FINANCIAL STATEMENTS
June 30, 2006 and 2005



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Accountants' Report* of the Sinclair Community College, Montgomery County, prepared by Crowe Chizek and Company LLC, for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 29, 2007

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SINCLAIR COMMUNITY COLLEGE
Dayton, Ohio

FINANCIAL STATEMENTS
June 30, 2006 and 2005

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Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Sinclair Community College (the "College") as of and for the years ended June 30, 2006 and 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 an opinion on these financial statements based on our audits. We did not audit the financial statements of the Sinclair Community College Foundation (Foundation), the component unit, (whose year ends are December 31, 2005 and 2004). Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the reports of the other auditors.

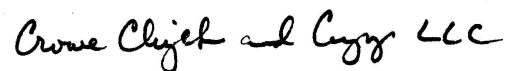
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform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

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component unit of Sinclair Community College as of June 30, 2006 and 2005 (December 31, 2005 and 2004 for the Foundation), and the respective changes in net assets and cash flows thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 10, 2006, on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting, compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Sinclair Community College taken as a whole. The accompanying Schedule of Expenditures of Federal Awards on pages 35 through 36, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for the purpose of additional analysis and is not a required part of the 2006 basic financial statements. The schedule is the responsibility of the College's management. Such additional information has been subjected to the auditing procedures applied in our audit of the 2006 basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Management's Discussion and Analysis (MD&A) on pages 3 through 13 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Crowe Chizek and Company LLC

Columbus, Ohio
October 10, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Sinclair Community College's (the "College's") financial performance provides an overview of the College's financial activities for the fiscal years ended June 30, 2006 and 2005. Please read it in conjunction with the College's financial statements, which begin on page 14.

Financial Highlights

The College is in a strong financial position at June 30, 2006. In spite of a slight reduction in net assets during the fiscal year, the College has the resources needed to support future physical expansion and enrollment growth. Moreover, program realignment and organizational restructuring initiatives are underway to help ensure that the College's financial position remains strong.

Net assets at June 30, 2006, were \$244.0 million or \$6.3 million lower than the prior year. Total revenues were \$130.8 million as compared to total expenses of \$137.1 million. From fiscal year 2005 to 2006, student enrollment in terms of annual full time equivalents (FTE) fell by 2.7% from 13,086 to 12,727.

The aforementioned decline in net assets contrasts with a slight increase realized in fiscal year 2005 of \$1.3 million (0.5%) from \$249.0 million to \$250.3 million owing mainly to an 11.2% increase in total revenues (from \$120.9 million to 134.5 million) coupled with a 0.4% decrease in operating expenses (\$133.8 million to \$133.2 million). In fiscal year 2005, College finances supported modest growth in student enrollment of 0.8% over fiscal year 2004.

Overview of the Financial Statements

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

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

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

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

Collectively, the statements provide a complete picture of the College's financial condition as of June 30, 2006 and 2005, and the results of its operations for the fiscal years then ended.

Net Assets

Net assets consist of three major categories: 1) capital assets, 2) externally restricted net assets, and 3) unrestricted net assets. In fiscal 2006, in accordance with a change in Ohio law (see Note E – State and County Support), net assets of \$21.3 million, representing accrued Montgomery County property tax levy receipts, are now classified as restricted - expendable net assets until received and spent for the designated purpose. While this change did not lower total net assets of the College, it was a significant factor in the FY 2006 decrease in unrestricted net assets of \$39.3 million (from \$125.6 million to \$86.3 million). The other factors in the decrease in unrestricted net assets were a decrease in the fair value of investments of \$4.5 million, and the aggregate result of all unrestricted revenue and expense activity and the use of unrestricted net assets for capital asset acquisitions of \$13.5 million. The College has the ability and intent to hold all investment securities to maturity; therefore, it is not anticipated that unrealized losses on investments will be realized.

In fiscal 2006, the College's total net assets decreased by \$6.3 million from \$250.3 million to \$244.0 million. This decrease can be viewed as having three primary components: 1) depreciation expense of \$6.3 million, 2) a decrease in the fair value of investments of \$4.5 million, and 3) exclusive of the first two items, revenue (\$135.3 million) in excess of expense (\$130.8 million) of \$4.5 million.

In fiscal 2005, the College's total net assets increased by \$1.3 million from \$249.0 million to \$250.3 million. This increase can be viewed as having three primary components: 1) depreciation expense of \$5.7 million, 2) an increase in the fair value of investments of \$1.0 million, and 3) exclusive of the first two items, revenue (\$133.5 million) in excess of expense (\$127.5 million) of \$6.0 million.

TABLE 1
NET ASSETS
(in millions of dollars)

	2006	2005	Percentage Change 2005-06	2004
Current assets	\$ 44.1	\$ 50.1	(12.0%)	\$ 38.7
Investments	89.6	98.7	(9.2%)	114.2
Capital assets, net	<u>134.4</u>	<u>123.0</u>	<u>9.3%</u>	<u>116.6</u>
 Total assets	 268.1	 271.8	 (1.4%)	 269.5
Current liabilities	20.0	17.5	14.3%	16.6
Long-term liabilities	<u>4.1</u>	<u>4.0</u>	<u>2.5%</u>	<u>3.9</u>
 Total liabilities	 24.1	 21.5	 12.1%	 20.5
 Net assets:				
Invested in capital assets	134.4	123.0	9.3%	116.6
Restricted—expendable	23.3	1.7	1270.6%	1.8
Unrestricted	<u>86.3</u>	<u>125.6</u>	<u>(31.3%)</u>	<u>130.6</u>
 Total net assets	 <u>\$ 244.0</u>	 <u>\$ 250.3</u>	 <u>(2.5%)</u>	 <u>\$ 249.0</u>

Revenues and Expenses

Fiscal year 2006 total revenues (operating, nonoperating and other, including the decrease in the fair value of investments) were \$130.8 million while total operating expenses, including depreciation, were \$137.1 million, thus yielding a \$6.3 million decrease in net assets. This compared to a \$1.3 million increase in net assets in the prior year resulting from total revenues of \$134.5 million less expenses of \$133.2 million. An analysis of significant changes is discussed below.

Operating Revenues:

In 2006, the College realized an increase in operating revenues of \$1.7 million or 3.0% despite a slight downturn in credit-based enrollments. Mitigating this 2.7% enrollment decline was a 6.9% effective increase in average tuition and fee rates, which yielded a net increase in tuition and fees of \$0.8 million or 3.9%. Combined federal, state and local grants and contracts produced a slight increase of \$0.2 million. Auxiliary enterprise revenues were \$0.2 million higher than fiscal year 2005, primarily due to increases in parking revenues. Sales of services and other operating revenues contributed a \$0.5 million improvement over fiscal 2005.

Fiscal 2005 operating revenues increased \$3.8 million or 7.2%, with nearly every category of revenue contributing to the overall result. Student tuition and fees generated the largest share of the improvement with an increase of 9.4% as a result of an average rate increase of 9.0%, nominal enrollment growth over fiscal year 2004 (0.8%) and an upturn in the offset of tuition and fees attributable to grants and scholarships. All other operating revenue categories combined to produce a \$2.1 million or 6.1% increase over fiscal year 2004.

Operating Expenses:

Total operating expenses increased by 2.9% in fiscal year 2006 versus 2005. The majority of this increase resulted from increases in salaries and fringe benefits. These increases were partially offset by significant budget cuts, including reductions in budgeted positions, that were factored into the original budget and mid-year budget revision. These cuts were implemented in order to offset reductions in state operating funding and enrollments.

In fiscal year 2005 total operating expenses declined slightly versus fiscal year 2004. On a per student FTE basis, operating expenses fell by 1.2%, mainly due to a change in depreciation policy that extended the useful life of buildings, thereby reducing annual depreciation expense.

Nonoperating and Other Revenues:

In fiscal 2006 nonoperating and other revenues declined by \$5.4 million, primarily due to a \$4.5 million decline in the fair value of the College's investments. In fiscal 2005 the fair value of the investments had increased by \$1 million. Such changes are the result of normal market value fluctuations in the bond market. The College's policy is to hold all of its investments to maturity; therefore, it is not anticipated that market value gains and losses will be realized.

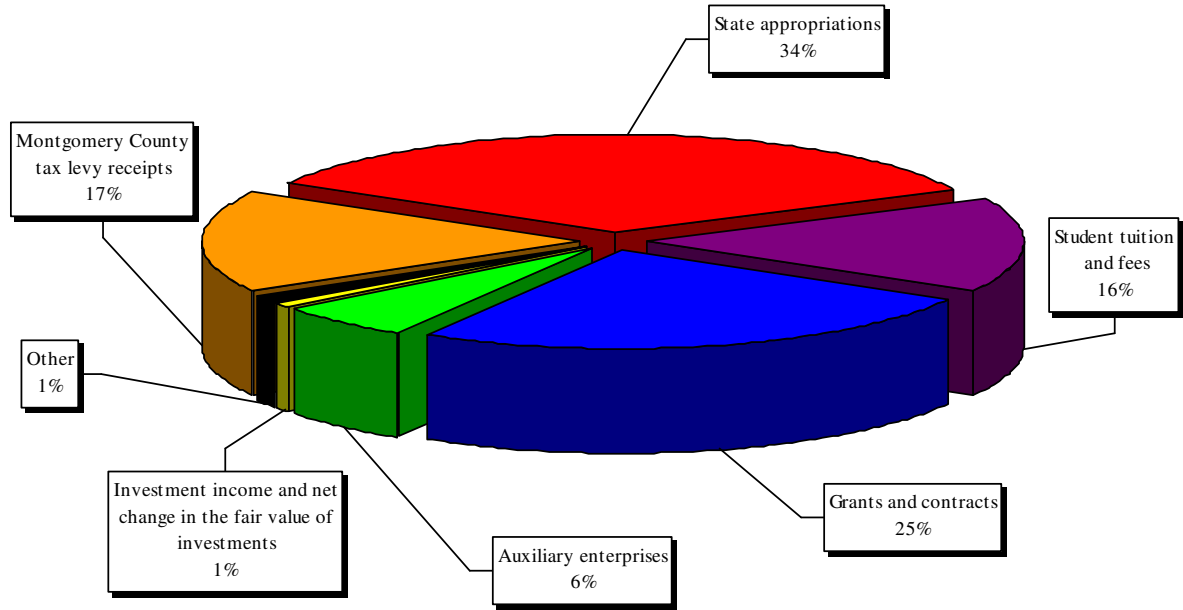
State appropriations declined by \$.9 million or 2% from fiscal 2005 to 2006. This decline is attributable to overall flat state funding in recent years for higher education coupled with the slowing of the College's enrollment growth rates over the last several periods.

In contrast, state appropriations increased by \$4.5 million or 10.9% in fiscal 2005. While higher education core funding at the state level was essentially flat in FY 2005 versus the prior year, the distribution of funds favored those institutions with growing enrollments, hence, Sinclair's increase.

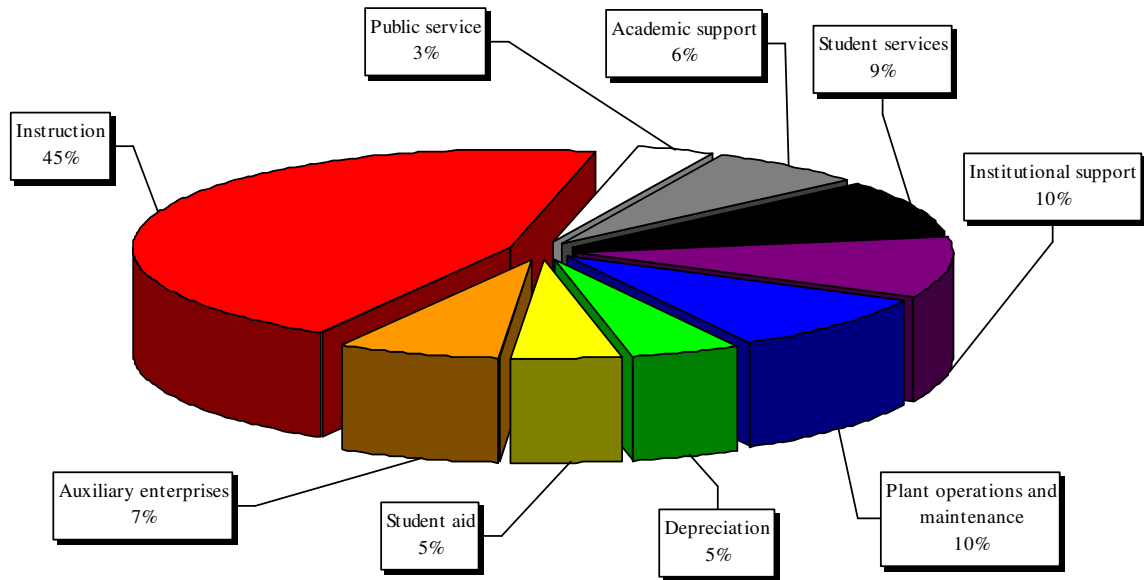
TABLE 2
REVENUES, EXPENSES AND CHANGES IN NET ASSETS
(in millions of dollars)

	<u>2006</u>	<u>2005</u>	<u>Percentage Change 2005-2006</u>	<u>2004</u>
Operating revenues:				
Student tuition and fees, net of grants and scholarships	\$ 20.5	\$ 19.7	4.1%	\$ 18.0
Federal grants and contracts	18.3	19.4	(5.7%)	18.9
State and local grants and contracts	7.0	6.0	16.7%	5.3
Nongovernmental grants and contracts	2.9	2.6	11.5%	2.3
Sales and services of educational departments	1.1	0.9	22.2%	0.6
Auxiliary enterprises, net of grants and scholarships	7.5	7.3	2.7%	6.9
Other	0.7	0.4	75.0%	0.5
Total operating revenues	58.0	56.3	3.0%	52.5
Operating expenses:				
Instruction	62.1	59.7	4.0%	57.0
Public service	4.7	4.6	2.2%	4.5
Academic support	8.9	8.7	2.3%	9.0
Student services	11.8	11.6	1.7%	11.0
Institutional support	14.0	13.0	7.7%	11.8
Plant operations and maintenance	13.2	12.6	4.8%	16.8
Depreciation	6.3	5.7	10.5%	7.7
Student aid	6.4	7.5	(14.7%)	7.1
Auxiliary enterprises	9.7	9.8	(1.0%)	8.9
Total operating expenses	137.1	133.2	2.9%	133.8
Nonoperating and other revenues:				
State appropriations	45.0	45.9	(2.0%)	41.4
County tax levy receipts	21.8	22.0	(0.9%)	21.3
Investment income	5.6	5.6	0.0%	5.9
Net increase (decrease) in the fair value of investments	(4.5)	1.0	(550.0%)	(3.9)
Capital grants	4.9	3.7	32.4%	3.7
Total nonoperating and other revenues	72.8	78.2	(6.9%)	68.4
Increase (decrease) in net assets	\$ (6.3)	\$ 1.3	(584.6%)	\$ (12.9)

**Figure 2.1
Sinclair Community College
Sources of Revenue
for Fiscal Year 2006**

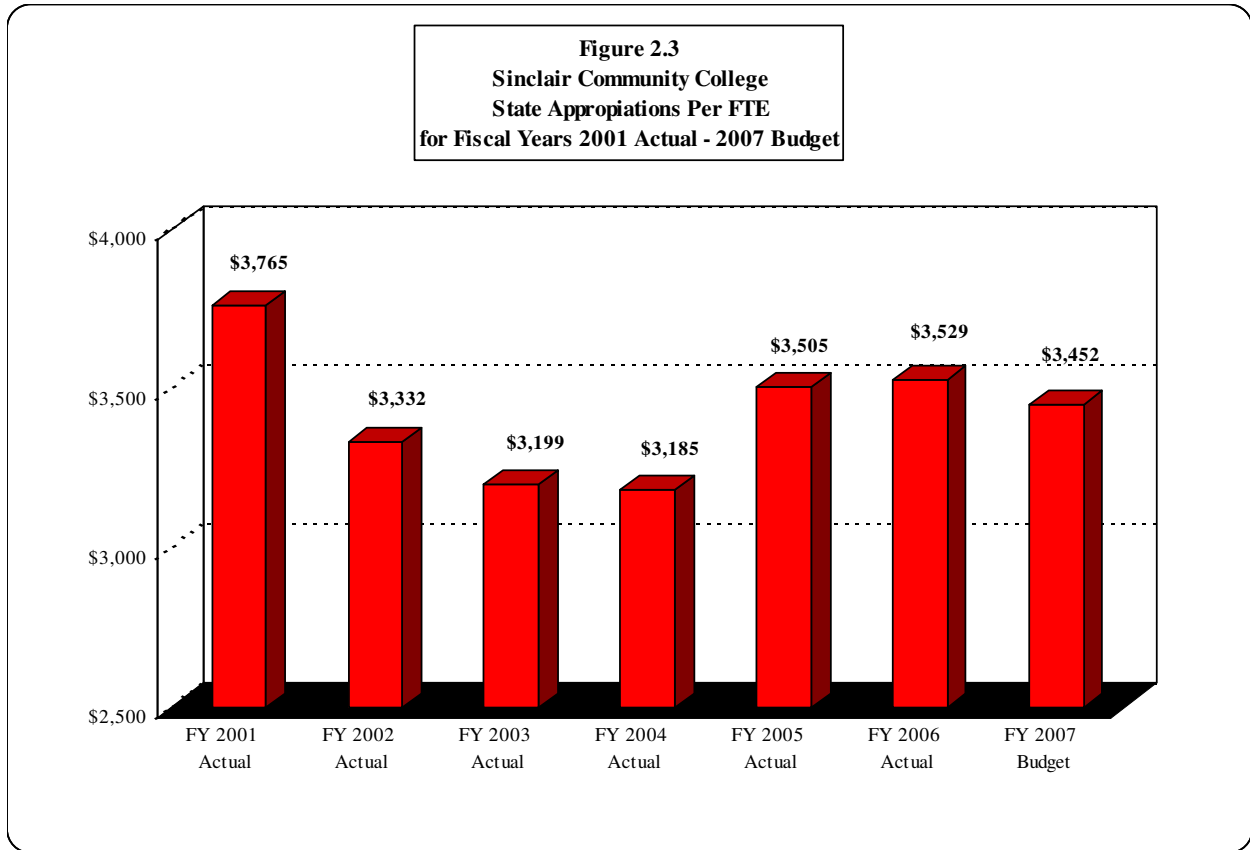


**Figure 2.2
Sinclair Community College
Expenditures by Function
for Fiscal Year 2006**

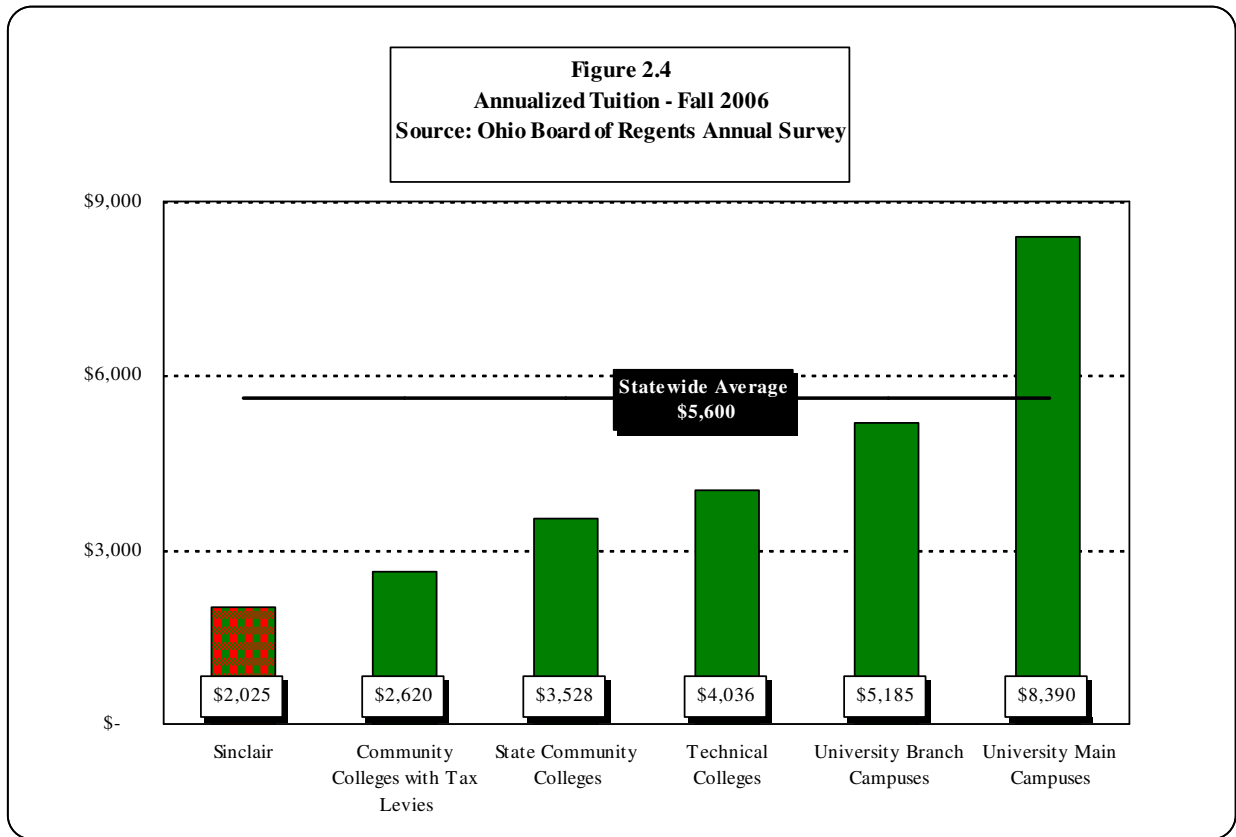


Economic Factors and Next Year's Budget

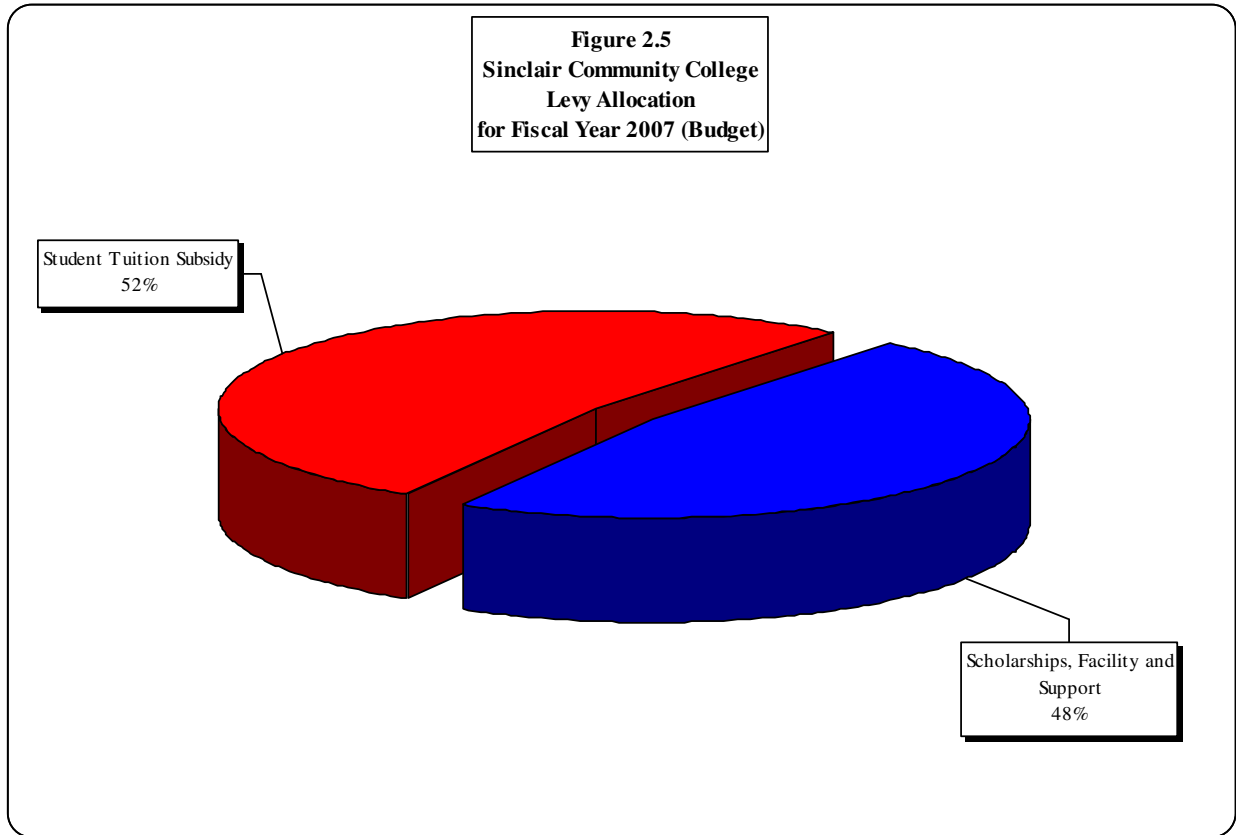
Despite a very slight improvement in state appropriations per FTE from 2005 to 2006 (please see Figure 2.3), fiscal year 2007 state funding per FTE is budgeted to decline as a result of projected enrollment growth coupled with flat state funding. The fiscal year 2007 level is 8% below fiscal 2001, when state budget cuts began.



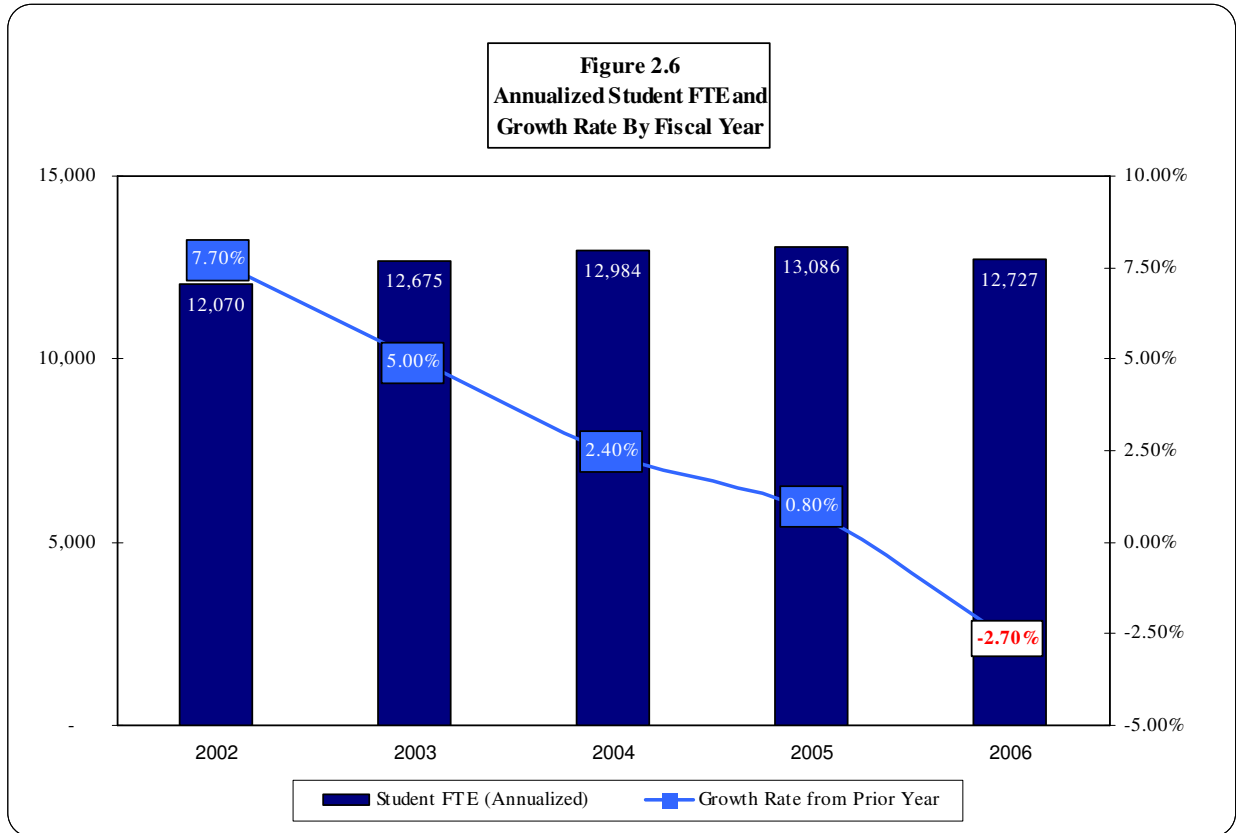
To compensate for the anticipated decline in state funding per FTE heading into FY 2007, the College instituted a 6.0% tuition increase effective with the fall quarter 2006. Notwithstanding this increase, the College's tuition for Montgomery county residents remains the lowest in Ohio as compared to the other state-supported institutions of higher education (see Figure 2.4).



As mentioned above, Sinclair's tuition for Montgomery County residents is the lowest in the state due to substantial funding that is provided in the form of a tax levy. The levy receipts are entirely used for expenditures benefiting students who reside in Montgomery county. The allocation of projected levy receipts for the FY 2007 budget is shown in Figure 2.5.



As demonstrated in Figure 2.6, College credit-based enrollments have grown during the past five years, except for a modest decline in fiscal 2006. Prior to this decline, the year-to-year rate of growth gradually slowed from a peak of 7.7% in fiscal 2002 to about 1% in fiscal 2005.



As a strategy for reversing these recent trends and to provide more citizens with needed higher education, the College recently launched two new learning centers within Montgomery County at the YMCA sites in Englewood and Huber Heights. In addition, the College is pursuing partnership opportunities to expand programs and services in Warren County. These strategies appear to be having a favorable impact as it is noted that overall enrollments for fall quarter 2006 were slightly up versus the prior year.

In May of 2006, the College’s Board of Trustees directed the administration to implement a restructuring plan to ensure that the College’s programs and services are optimally aligned with the present and future needs of the community. This restructuring is also intended to restore, over time, the operating margin to historical and sustainable levels.

Capital Assets

Land value increased \$.1 million in fiscal 2006 and \$.4 million in fiscal 2005, primarily due to the acquisition of small properties near the campus. Additions to buildings and improvements of \$14.7 million in fiscal 2006 and \$9.3 million in fiscal 2005 were offset by depreciation expense of \$4.0 million and \$2.6 million in the respective years. Building additions in fiscal 2006 include a \$7.3 million Learning Resource Center renovation project. In fiscal 2005, a change in the estimated useful life of buildings from 40 years to 60 years significantly reduced depreciation expense for both fiscal years. New additions to equipment inventory, the majority for classroom and laboratory use and information technology replacements, totaled \$2.8 million in fiscal 2006 and \$2.0 million in fiscal 2005, offset by depreciation expense of \$2.1 million and \$2.6 in the respective years.

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

	2006	2005	Percentage Change 2005-06	2004
Land and improvements	\$ 10.9	\$ 10.8	0.9%	\$ 10.4
Buildings and improvements	114.7	104.0	10.3%	97.3
Equipment	7.6	6.9	10.1%	7.5
Library books	<u>1.2</u>	<u>1.3</u>	<u>(7.7)%</u>	<u>1.4</u>
	<u>\$ 134.4</u>	<u>\$ 123.0</u>	<u>9.3%</u>	<u>\$ 116.6</u>

SINCLAIR COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
Years ended June 30, 2006 and 2005

ASSETS	2006	2005
CURRENT ASSETS:		
Cash and cash equivalents	\$ 12,108,718	\$ 19,685,913
Accounts receivable, net	8,141,321	6,642,777
Prepaid expenses	567,111	514,265
Interest receivable	435,142	460,903
Property tax levy receivable	21,343,210	21,331,562
Inventories	<u>1,520,157</u>	<u>1,495,490</u>
Total current assets	<u>44,115,659</u>	<u>50,130,910</u>
NONCURRENT ASSETS:		
Investments	89,604,437	98,695,088
Capital assets, net	<u>134,412,185</u>	<u>122,936,946</u>
Total noncurrent assets	<u>224,016,622</u>	<u>221,632,034</u>
Total assets	<u>\$ 268,132,281</u>	<u>\$ 271,762,944</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accruals	6,370,979	5,109,496
Accrued salaries, wages and benefits	10,088,998	9,170,633
Deferred student fee income	2,668,892	2,505,127
Deposits	<u>876,334</u>	<u>743,217</u>
Total current liabilities	20,005,203	17,528,473
NONCURRENT LIABILITIES:		
Accrued salaries, wages and benefits	<u>4,144,993</u>	<u>3,982,670</u>
Total liabilities	24,150,196	21,511,143
NET ASSETS:		
Invested in capital assets	134,412,185	122,936,946
Restricted - expendable	23,252,306	1,683,316
Unrestricted	<u>86,317,594</u>	<u>125,631,539</u>
Total net assets	<u>243,982,085</u>	<u>250,251,801</u>
Total liabilities and net assets	<u>\$ 268,132,281</u>	<u>\$ 271,762,944</u>

See accompanying notes to the financial statements.

SINCLAIR COMMUNITY COLLEGE FOUNDATION
 STATEMENTS OF FINANCIAL POSITION
 Years ended December 31, 2005 and 2004

ASSETS	2005	2004
Cash	\$ <u>988,036</u>	\$ <u>687,777</u>
Investments (Note K):		
Fixed income securities	7,677,928	6,690,295
Equities	15,155,848	13,427,800
Miami Valley Venture Funds	<u>180,989</u>	<u>140,588</u>
Total investments	<u>23,014,765</u>	<u>20,258,683</u>
Accounts receivable	<u>20,475</u>	<u>64,316</u>
Pledges receivable, net of allowances of \$63,379 and \$115,304 at December 31, 2005 and 2004, respectively (Note K)	<u>3,313,332</u>	<u>5,854,687</u>
Total assets	<u>\$ 27,336,308</u>	<u>\$ 26,865,463</u>
 LIABILITIES AND NET ASSETS		
Payable to Sinclair Community College	\$ 564,120	\$ 331,522
Other payables	<u>206,953</u>	<u>128,576</u>
Total liabilities	<u>771,073</u>	<u>460,098</u>
Net assets:		
Unrestricted	16,198,972	15,484,541
Temporarily restricted	6,291,027	7,014,026
Permanently restricted	<u>4,075,536</u>	<u>3,906,798</u>
Total net assets	<u>26,565,535</u>	<u>26,405,365</u>
Total liabilities and net assets	<u>\$ 27,336,608</u>	<u>\$ 26,865,463</u>

SINCLAIR COMMUNITY COLLEGE
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 Years ended June 30, 2006 and 2005

REVENUES	2006	2005
Operating revenues:		
Student tuition and fees	\$ 30,644,656	\$ 29,685,538
Less grants and scholarships	<u>(10,193,128)</u>	<u>(10,006,293)</u>
Student tuition and fees net of grants and scholarships	20,451,528	19,679,245
Federal grants and contracts	18,322,969	19,417,890
State and local grants and contracts	7,015,424	6,041,369
Nongovernmental grants and contracts	2,862,725	2,562,962
Sales and services of educational departments	1,072,994	880,095
Auxiliary enterprises		
Food service	366,368	309,297
Bookstore (net of grants and scholarships of \$3,032,804 and \$3,225,997 in 2006 and 2005, respectively)	6,052,745	6,463,778
Parking	1,106,782	497,338
Other operating revenues	<u>751,328</u>	<u>437,910</u>
Total operating revenues	\$ 58,002,863	\$ 56,289,884

(Continued)

SINCLAIR COMMUNITY COLLEGE
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 Years ended June 30, 2006 and 2005

EXPENSES	2006	2005
Operating expenses:		
Educational and general:		
Instruction	\$ 62,106,547	\$ 59,744,753
Public service	4,726,218	4,626,104
Academic support	8,934,374	8,720,288
Student services	11,815,300	11,607,832
Institutional support	13,991,896	13,002,991
Plant operations and maintenance	13,193,993	12,547,922
Depreciation	6,328,462	5,700,210
Student aid	6,417,730	7,450,919
Auxiliary enterprises:		
Food service	170,117	140,500
Bookstore	8,563,109	8,881,838
Parking	<u>898,303</u>	<u>739,837</u>
Total operating expenses	<u>137,146,049</u>	<u>133,163,194</u>
Operating loss	<u>(79,143,186)</u>	<u>(76,873,310)</u>
Nonoperating revenues (expenses):		
State appropriations	44,918,370	45,861,193
County tax levy receipts	21,876,766	21,992,001
Investment income	5,649,597	5,609,931
Net increase (decrease) in the fair value of investments	<u>(4,455,574)</u>	<u>1,031,042</u>
Total nonoperating revenues	<u>67,989,159</u>	<u>74,494,167</u>
Income (loss) before other revenues, expenses, gains, or losses	(11,154,027)	(2,379,143)
Other revenues – state capital grants	<u>4,884,311</u>	<u>3,661,545</u>
Increase (decrease) in net assets	(6,269,716)	1,282,402
Net assets:		
Beginning of year	<u>250,251,801</u>	<u>248,969,399</u>
End of year	<u>\$ 243,982,085</u>	<u>\$ 250,251,801</u>

See accompanying notes to the financial statements.

SINCLAIR COMMUNITY COLLEGE FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years ended December 31, 2005 and 2004

	2005				2004			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support:								
Contributions (Note K)	\$ 497,263	\$ 635,314	\$ 167,135	\$ 1,299,712	\$ 1,076,613	\$ 4,621,711	\$ 81,298	\$ 5,779,622
Interest/dividends, net of fund expenses of \$41,783 in 2005 and \$39,809 in 2004	6,261	16,620	--	22,881	(15,274)	1,177	(441)	(14,538)
Net realized/unrealized gains (losses) on investment	1,006,806	241,103	1,603	1,249,512	1,341,928	309,891	40,167	1,691,986
Net assets released from restrictions	<u>1,616,036</u>	<u>(1,616,036)</u>	<u>--</u>	<u>--</u>	<u>1,221,369</u>	<u>(1,221,369)</u>	<u>--</u>	<u>--</u>
Total revenue and support	<u>3,126,366</u>	<u>241,103</u>	<u>168,738</u>	<u>2,572,105</u>	<u>3,624,636</u>	<u>3,711,410</u>	<u>121,024</u>	<u>7,457,070</u>
Expenses:								
Scholarships	666,613	--	--	666,613	249,553	--	--	249,553
Project support	1,441,120	--	--	1,441,120	1,348,845	--	--	1,348,845
Operating expenses	<u>304,202</u>	<u>--</u>	<u>--</u>	<u>304,202</u>	<u>327,263</u>	<u>--</u>	<u>--</u>	<u>327,263</u>
Total expenses	<u>2,411,935</u>	<u>--</u>	<u>--</u>	<u>2,411,935</u>	<u>1,925,661</u>	<u>--</u>	<u>--</u>	<u>1,925,661</u>
Change in net assets	714,431	(722,999)	168,738	160,170	1,698,975	3,711,410	121,024	5,531,409
Net assets, beginning of year	<u>15,484,541</u>	<u>7,014,026</u>	<u>3,906,798</u>	<u>26,405,365</u>	<u>13,785,566</u>	<u>3,302,616</u>	<u>3,785,774</u>	<u>20,873,956</u>
Net assets, end of year	<u>\$ 16,198,972</u>	<u>\$ 6,291,027</u>	<u>\$ 4,075,536</u>	<u>\$ 26,565,535</u>	<u>\$ 15,484,541</u>	<u>\$ 7,014,026</u>	<u>\$ 3,906,798</u>	<u>\$ 26,405,365</u>

SINCLAIR COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
Years ended June 30, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tuition and fees	\$ 20,655,821	\$ 19,451,051
Grants and contracts	27,598,759	28,074,127
Payments to vendors and employees	(128,473,155)	(127,477,293)
Auxiliary enterprise charges	7,293,356	7,308,946
Sales and services of educational departments	796,023	917,415
Other receipts	<u>664,604</u>	<u>467,537</u>
Net cash used in operating activities	<u>(71,464,592)</u>	<u>(71,258,217)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
State appropriations	44,918,370	45,861,193
Property tax levy receipts	21,865,118	21,731,836
Direct student loan receipts	7,369,785	7,793,373
Direct student loan disbursements	(7,790,038)	(7,494,160)
Deposits	<u>133,117</u>	<u>105,818</u>
Net cash provided by non-capital financing activities	<u>66,496,352</u>	<u>67,998,060</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants	4,884,311	3,661,545
Purchases of capital assets	<u>(17,803,701)</u>	<u>(12,079,401)</u>
Net cash (used in) provided by capital and related financing activities	<u>(12,919,390)</u>	<u>(8,417,856)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of investments	23,320,360	32,927,705
Interest on investments	5,953,828	6,258,765
Purchase of investments	<u>(18,963,753)</u>	<u>(16,928,671)</u>
Net cash provided by investing activities	<u>10,310,435</u>	<u>22,257,799</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,577,195)	10,579,786
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>19,685,913</u>	<u>9,106,127</u>
End of year	<u>\$ 12,108,718</u>	<u>\$ 19,685,913</u>

(Continued)

SINCLAIR COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
Years ended June 30, 2006 and 2005

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	2006	2005
Operating loss	\$ (79,143,186)	\$ (76,873,310)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	6,328,462	5,700,210
Changes in net assets:		
Accounts receivable	(1,078,291)	(627,549)
Inventory	(24,667)	(382,815)
Prepaid expenses	(52,846)	47,265
Accounts payable	1,261,483	515,812
Accrued salaries, wages and benefits	1,080,688	166,727
Deferred revenue	<u>163,765</u>	<u>205,351</u>
Net cash used by operating activities	<u>\$ (71,464,592)</u>	<u>\$ (71,258,217)</u>

See accompanying notes to financial statements.

SINCLAIR COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

(Continued)

SINCLAIR COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

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

Expendable: net assets related to grants, contracts and taxes, whose use is subject to externally-imposed restrictions including limitations on the use of net assets imposed by enabling legislation.

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

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

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

Accounts Receivable: Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the federal government, state and local governments and private sources, in connection with reimbursement of allowable expenditures made pursuant to the College's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts of approximately \$96,000 and \$104,000 at June 30, 2006 and 2005, respectively. The College determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, previous loss history and the condition of the general economy and the industry as a whole.

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

(Continued)

SINCLAIR COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

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

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

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

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

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

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

Adoption of New Accounting Principles: For the year ended June 30, 2006, GASB Statement No. 46, *Net Assets Restricted by Legislation* became effective. Currently, no net assets of the College are required to be restricted from enabling legislation.

In addition, during the year ended June 30, 2006, GASB Statement No. 47, *Accounting for Termination Benefits* became effective. Currently, the College provides no benefits required to be recognized by this statement.

(Continued)

SINCLAIR COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

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

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

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

NOTE B - CASH AND INVESTMENTS

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

Deposits: At June 30, 2006, the carrying amount of the College's deposits in all funds was \$12,107,640 (included in cash and cash equivalents in the balance sheet) and the bank balance was \$12,275,037. The difference between carrying amount and bank balance was primarily due to outstanding checks at June 30, 2006. Of the bank balance, \$512,152 was covered by federal depository insurance or by collateral held by the College's agent in the College's name. The remaining balance of \$11,762,885 was uninsured. The uninsured deposits are held in accounts collateralized by a pooled collateral account at the Federal Reserve Banks of Cincinnati and New York. Custodial credit risk for deposits is the risk that, in the event of a bank failure, the College's deposits may not be returned to the College. The College follows the deposit policy for custodial risk in accordance with the Ohio Revised Code.

(Continued)

SINCLAIR COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE B – CASH AND INVESTMENTS (Continued)

Investments: Investments are stated at their fair value of \$89,605,514 (amortized cost basis of \$92,256,606). The College's investments include \$89,604,437 invested in Government National Mortgage Association (GNMA) pools and are therefore not subject to the credit risk disclosures of GASB Statement No. 40. The remaining \$1,078 was on deposit in the State Treasurer's investment pool and valued at the pool's share, which is the price for which the investment could be sold on June 30, 2006.

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

<u>Years</u>	<u>Amount</u>
1-5	\$ --
6-10	158,436
11-20	6,066,655
Greater than 20	<u>83,379,346</u>
Total at fair value	<u>\$ 89,604,437</u>

However, a GNMA pool does not mature all at once on its stated maturity date. Rather, a portion of each pool matures every month, and an entire pool will usually mature many years before its maturity date. The following homeowner actions result in the return of principal to the owner of the GNMA pool: 1) making a monthly mortgage payment which includes a principal component, 2) refinancing a mortgage and thereby paying off the old mortgage, 3) selling a home and paying off the mortgage. GNMA principal amounts returned to the College are either reinvested, held as cash or used in operations as is deemed appropriate. For the year ended June 30, 2006 the College's GNMA investments returned principal as follows:

<u>Years</u>	<u>Amount</u>
1-5	\$ --
6-10	40,882
11-20	2,189,871
Greater than 20	<u>21,089,607</u>
Total (at cost)	<u>\$ 23,320,360</u>

(Continued)

SINCLAIR COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE B – CASH AND INVESTMENTS (Continued)

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

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

Capital improvements, facility renovations, equipment	\$ 42,072,428
Tuition stabilization, unplanned income decline, uninsured losses, other contingencies and initiatives	21,239,234
Auxiliary enterprises	8,371,471
Restricted grants and contracts	1,909,096
Restricted future proceeds from property tax levy	21,343,210
Board designated endowment	<u>14,253,274</u>
 Total allocated net assets	 <u>\$ 109,188,713</u>

(Continued)

SINCLAIR COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE C - CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2006 and 2005 is summarized as follows:

	2006 Beginning Balance	Additions	Disposals	2006 Ending Balance
Cost:				
Land and improvements	\$ 10,846,015	\$ 104,598		\$ 10,950,613
Buildings and improvements	193,970,093	14,748,003		208,718,096
Equipment and fixtures	18,574,920	2,801,763	\$ 907,503	20,469,180
Library materials	<u>4,613,306</u>	<u>161,700</u>	<u>17,350</u>	<u>4,757,656</u>
Total cost	<u>228,004,334</u>	<u>17,816,064</u>	<u>924,853</u>	<u>244,895,545</u>
Less accumulated depreciation:				
Buildings and improvements	89,993,537	4,004,044		93,997,581
Equipment and fixtures	11,723,093	2,065,249	895,140	12,893,202
Library materials	<u>3,350,758</u>	<u>259,169</u>	<u>17,350</u>	<u>3,592,577</u>
Total accumulated depreciation	<u>105,067,388</u>	<u>6,328,462</u>	<u>912,490</u>	<u>110,483,360</u>
Capital assets, net	<u>\$ 122,936,946</u>	<u>\$ 11,487,602</u>	<u>\$ 12,363</u>	<u>\$ 134,412,185</u>
	2005 Beginning Balance	Additions	Disposals	2005 Ending Balance
Cost:				
Land and improvements	\$ 10,313,383	\$ 532,632		\$ 10,846,015
Buildings and improvements	184,640,375	9,329,718		193,970,093
Equipment and fixtures	17,481,035	2,061,516	\$ 967,631	18,574,920
Library materials	<u>4,752,268</u>	<u>167,909</u>	<u>306,871</u>	<u>4,613,306</u>
Total cost	<u>217,187,061</u>	<u>12,091,775</u>	<u>1,274,502</u>	<u>228,004,334</u>
Less accumulated depreciation:				
Buildings and improvements	87,289,828	2,703,709		89,993,537
Equipment and fixtures	9,956,388	2,721,962	955,257	11,723,093
Library materials	<u>3,383,090</u>	<u>274,539</u>	<u>306,871</u>	<u>3,350,758</u>
Total accumulated depreciation	<u>100,629,306</u>	<u>5,700,210</u>	<u>1,262,128</u>	<u>105,067,388</u>
Capital assets, net	<u>\$ 116,557,755</u>	<u>\$ 6,391,565</u>	<u>\$ 12,374</u>	<u>\$ 122,936,946</u>

(Continued)

SINCLAIR COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE D - LONG-TERM LIABILITIES

Long-term liabilities activity for the years ended June 30, 2006 and 2005 is summarized as follows:

<u>2006</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Compensated absences	<u>\$ 4,177,981</u>	<u>\$ 378,173</u>	<u>\$ 211,763</u>	<u>\$4,344,391</u>	<u>\$ 199,398</u>
<u>2005</u>					
Compensated absences	<u>\$ 4,087,881</u>	<u>\$ 317,354</u>	<u>\$ 227,254</u>	<u>\$4,177,981</u>	<u>\$ 195,311</u>

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

NOTE E - STATE AND COUNTY SUPPORT

The College is an institution of higher education that receives a state assisted student-based subsidy from the State of Ohio using a formula devised by the Ohio Board of Regents. In addition to student subsidies, the State of Ohio provides a portion of the funding for the construction of major plant facilities on the College campus, as well as for the renovation of facilities and the purchase of equipment.

The College also receives support from a Montgomery County, Ohio property tax levy (2 ½ mills commencing January 1, 1999 and ending December 31, 2008). Based upon a recent change in state law, levy receipts must be used solely for the benefit of Montgomery County residents attending the College in the form of student tuition subsidy, student scholarships and instructional facilities, equipment and support services located within Montgomery County. Therefore, these amounts are recognized in 2006 as restricted – expendable net assets until received and spent for their required purpose.

NOTE F - LEASE OBLIGATIONS

The College leases various buildings, office space and equipment under operating lease agreements. These facilities and equipment are not recorded as assets on the balance sheet. The total rental expense under these agreements was \$427,324 and \$362,887 for the years ended June 30, 2006 and 2005, respectively.

(Continued)

SINCLAIR COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE F - LEASE OBLIGATIONS (Continued)

Future minimum lease payments for all significant operating leases with initial or remaining terms in excess of one year as of June 30, 2006, are as follows:

Years ending June 30,	
2007	\$ 881,656
2008	854,072
2009	787,041
2010	686,410
2011	590,466
2012-2014	<u>2,878,175</u>
 Total minimum lease payments	 <u>\$ 6,677,820</u>

NOTE G - RETIREMENT PLANS

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

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

OPERS	STRS
277 East Town Street	275 East Broad Street
Columbus, OH 43215-4642	Columbus, OH 43215-3771
(614) 222-6705	(614) 227-4002
(800) 222-PERS (7377)	

(Continued)

SINCLAIR COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE G - RETIREMENT PLANS (Continued)

OPERS plan members are required to contribute 8.5% of their annual salary from July 1, 2005 through December 31, 2005, and 9% from January 1, 2006 through June 30, 2006 (10.1% for law enforcement officers), and STRS members contribute 10%. The College is required to contribute 13.55% from July 1, 2005 through December 31, 2005, and 13.7% from January 1, 2006 through June 30, 2006 (16.70% for law enforcement officers from July 1, 2005 through December 31, 2005, and 16.93% from January 1, 2006 through June 30, 2006) and 14% of annual covered payroll for OPERS and STRS, respectively. The contribution requirements of plan members and the College are established and may be amended by state statute. The College is required to contribute 14% of annual covered payroll for STRS.

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

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

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

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

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

Employees electing the ARP instead of OPERS are required to contribute 8.5% of salary. The College's discretionary contribution to the ARP has been set at 13.54% from July 1, 2005 through December 31, 2005 and 13.70% from January 1, 2006 through June 30, 2006.

The College's contributions to OPERS, STRS and ARP required and made for the years ended June 30, 2006, 2005, and 2004 were as follows:

<u>Year</u>	<u>Contribution</u>		
	<u>OPERS</u>	<u>STRS</u>	<u>ARP</u>
2006	\$ 4,205,425	\$ 4,941,699	\$ 314,537
2005	4,143,964	4,811,469	248,795
2004	3,757,130	4,836,977	247,753

(Continued)

SINCLAIR COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE H - OTHER POSTEMPLOYMENT BENEFITS

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

A portion of each employer's contributions is set aside for the funding of postretirement health care. For STRS, this rate for fiscal year 2005 and after was 1% for the employer contribution rate of 14% (see Note G). At June 30, 2005, the rate for OPERS and the law enforcement division was 4% of the total employer contribution rates of 13.55% (13.70% after January 1, 2006) and 16.70% (16.93% after January 1, 2006), respectively. The Ohio Revised Code provides the statutory authority for public employers to fund postretirement health care through their contributions to OPERS and STRS.

Postretirement health care under OPERS is advance-funded on an actuarially determined basis. The actuarial value of OPERS net assets available for Other Postemployment Benefits (OPEB) at December 31, 2004, is \$11.8 billion. The number of OPERS active contributing participants was 376,109 at year-end December 31, 2005. For the year ended June 30, 2006, the College contributed approximately \$1,300,000 to OPERS for OPEB funding, which is equal to the actuarially required contributions of the plan.

Postretirement health care under STRS is financed on a pay-as-you-go basis. Assets available in the health care reserve fund for STRS amounted to \$3.3 billion as of June 30, 2005. Eligible benefit recipients reported for STRS totaled 115,395 as of June 30, 2005. For the year ended June 30, 2006, the College contributed approximately \$353,000 to STRS to fund these benefits.

The Government Accounting Standards Board (GASB) has issued Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes standards for the measurement, recognition and display of other postemployment benefits expenses and related liabilities, note disclosures and, if applicable, required supplementary information in the financial reports of employers subject to governmental accounting standards. The provisions of this statement are effective for financial statements for fiscal periods beginning after December 15, 2007 for entities the size of the College.

(Continued)

SINCLAIR COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE I - INSURANCE

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

NOTE J - CONTINGENCIES

The College receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the College. As of June 30, 2006, management is not aware of any potential disallowances.

(Continued)

SINCLAIR COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE K – SINCLAIR COMMUNITY COLLEGE FOUNDATION

The financial statements of the Sinclair Community College Foundation are included in this report in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units – an amendment of GASB Statement No. 14*. This Statement amended Statement No. 14 to provide additional guidance to determine whether certain organizations, such as not-for-profit foundations, for which the primary institution is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the primary entity. Generally, this statement requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of an institution. The provisions of this Statement became effective for financial statements for periods beginning after June 15, 2005.

The Sinclair Foundation is a 501(c)(3) charitable foundation with its own governing board. The Foundation is operated for the benefit of the College, and raises funds that are used to provide student scholarships and to support specific activities and projects proposed by faculty and staff that are related to the College's educational mission. Each of the Foundation's financial statements for the years ended December 31, 2005 and 2004, is discreetly presented following the respective College financial statement.

The Foundation's statements were prepared in accordance with the pronouncements of the Financial Accounting Standards Board. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the College's report for these differences.

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

Investments at cost value at December 31:

	2005	2004
Fixed income securities	\$ 6,258,767	\$ 5,425,873
Equities	12,064,933	11,367,826
Miami Valley Venture Funds	<u>180,989</u>	<u>140,588</u>
Total investments	\$ 18,504,689	\$ 16,934,287

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

(Continued)

SINCLAIR COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

NOTE K – SINCLAIR COMMUNITY COLLEGE FOUNDATION (Continued)

Pledges Receivable: As the collection of pledges is estimated to be probable, the Foundation recorded a receivable of \$3,313,332, representing the present value of those pledges receivable at December 31, 2005. The fair value of pledges due within one year approximates its carrying value due to the short-term nature of the receivable. The remaining receivables have been discounted to reflect the present value of expected future cash flows using a discount rate of 5%.

Pledges receivable at December 31, 2005, are summarized as follows:

	<u>Less than 1 Year</u>	<u>1-5 Years</u>	<u>More than 5 Years</u>	<u>Total</u>
Pledges receivable	\$ 1,414,041	\$ 2,113,468	\$ 2,855	\$ 3,530,364
Unamortized discount	--	(153,035)	(618)	(153,653)
Present value of pledges receivable	1,414,041	1,960,433	2,237	3,376,711
Allowance for doubtful accounts	(28,281)	(35,053)	(45)	(63,379)
Pledges receivable, net	<u>\$ 1,385,760</u>	<u>\$ 1,925,380</u>	<u>\$ 2,192</u>	<u>\$ 3,313,332</u>

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

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

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

Support to the College: During the years ended June 30, 2006 and 2005, the Foundation provided resources of \$1,694,000 and \$1,834,000 to or on behalf of the College for restricted purposes. Complete financial statements for the Foundation can be obtained from the Sinclair Community College Foundation at 444 W. Third St., Room 7230, Dayton, Ohio, 45402.

(Continued)

SUPPLEMENTARY INFORMATION

SINCLAIR COMMUNITY COLLEGE
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2006

Federal Grants/Pass-Through Grant/Program Title	<u>Federal CFDA Number</u>	<u>Pass-though Grantor's Numbers</u>	<u>Federal Expenditures</u>
U.S. Department of Education:			
Student Financial Aid Assistance Cluster:			
Federal Supplemental Educational Opportunity Grant	84.007		\$ 248,675
Federal Work-Study Program	84.033		60,000
Federal Pell Grant Program	84.063		12,956,578
Federal Direct Student Loans	84.268		<u>8,600,312</u>
Total student financial assistance cluster			<u>21,865,565</u>
Trio Cluster:			
Trio Upward Bound	84.047		335,126
Trio Student Support Services	84.042		<u>295,142</u>
Total Trio cluster			<u>630,268</u>
Adult Education State Grant Program, pass-through from State of Ohio Department of Education	84.002	063362-AB-SI-2002, 063362-AB-SI-2002 C, 063362-AB-SL-2002, 063362-AB-SI-2002 C, 063362-AB-SI-2003	474,925
Higher Education Instructional Aid Strengthening Institutions	84.031		298,016
Vocation Education Basic Grants to States, pass-through State of Ohio Department of Education	84.048	20-C2 2005	282,646
Tech Prep Education, pass-through from State of Ohio Department of Education	84.243	3E-00 2002 and 3ETC-2005	387,385
Child Care Access Means Parents in School	84.335		50,510
Twenty-First Century Community Learning Centers, pass-through from State of Ohio Department of Education	84.287		<u>286,896</u>
Total Department of Education			<u>24,276,211</u>

(Continued)

SINCLAIR COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2006

Federal Grants/Pass-Through Grant/Program Title	<u>Federal CFDA Number</u>	<u>Pass-through Grantor's Numbers</u>	<u>Federal Expenditures</u>
U.S. Department of Labor:			
Native American Employment and Training Program, pass-through from Montgomery County Department of Human Services	17.251	Resolution 02-1353	\$ 94,293
Workforce Investment Act Dislocated Workers, pass-through from Montgomery County Department of Human Services	17.260	Resolution 03-813	<u>15,914</u>
Total Department of Labor			<u>110,207</u>
Corporation for National and Community Service:			
Learn and Serve America Higher Education	94.005	03LHHDC001	16,144
Volunteers in Service to America, pass-through from AmeriCorps	94.013	03NDHTX001	<u>168,501</u>
Total Corporation for National and Community Service			<u>184,645</u>
U.S. Department of Health and Human Services:			
Temporary Assistance for Needy Families, pass-through from Montgomery County Department of Human Services	93.558	Resolution 02-2145 Resolution 02-1153	1,304,452
Child Care and Development Block Grant, pass-through from State of Ohio Department of Child Care and Development	93.575		<u>66,157</u>
Total Department of Health and Human Services			<u>1,370,609</u>
National Science Foundation - Education and Human Resources	47.076		983,649
National Urban and Rescue Response System, pass-through from Miami Valley Fire/EMS Alliance	83.526	9062000	1,200
U.S. Department of Agriculture - Summer Food Service Program for Children, pass-through from State of Ohio Department of Education	10.559	23 UN 2002	2,733
Department of Justice - Bulletproof Vest Partnership Program	16.607		<u>229</u>
Total Federal Awards			<u>\$ 26,929,483</u>

SINCLAIR COMMUNITY COLLEGE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2006

NOTE 1 – BASIS OF PRESENTATION

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

SINCLAIR COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2006

1. Summary of Auditor's Results

- a. An unqualified opinion was issued on the financial statements of Sinclair Community College for the year ended June 30, 2006.
- b. An unqualified opinion was issued to Sinclair Community College for compliance with major programs.
- c. The audit did not disclose any noncompliance that is material to the financial statements.
- d. There were no audit findings required to be disclosed under OMB Circular A-133 Section 510(a).
- e. Major Programs Identified:

U.S. Department of Education
Student Financial Aid Cluster: Federal Pell Grant Program 84.063, Federal Supplemental Educational Opportunity Grants 84.007, Federal Work-Study Program 84.033, Federal Direct Student Loans 84.268.
- f. The dollar threshold used to distinguish between Type A and Type B programs was \$549,875.
- g. The auditee was considered a low-risk auditee.

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

None.

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

None.

PRIOR YEAR FINDINGS

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



Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of Sinclair Community College (the "College") as of and for the year ended June 30, 2006, and have issued our report thereon dated October 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However,

providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Columbus, Ohio
October 10, 2006



Crowe Chizek and Company LLC
Member Horwath International

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

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

Compliance

We have audited the compliance of Sinclair Community College (the "College") with the types of compliance requirements described in the *US. Office of Management and Budget (OMB) A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The College's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the College's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the College's compliance with those requirements.

In our opinion, the College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

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

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Columbus, Ohio
October 10, 2006



Mary Taylor, CPA
Auditor of State

SINCLAIR COMMUNITY COLLEGE

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 8, 2007**