

STARK STATE COLLEGE OF TECHNOLOGY
INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

Board of Trustees
Stark State College of Technology
6200 Frank Ave. NW
Canton, OH 44720-7299

We have reviewed the *Independent Auditor's Report* of the Stark State College of Technology, Stark County, prepared by Varney, Fink & Associates, 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 Stark State College of Technology is responsible for compliance with these laws and regulations.

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

BETTY MONTGOMERY
Auditor of State

January 25, 2006

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**STARK STATE COLLEGE OF TECHNOLOGY
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Stark State College of Technology (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 an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Stark State College of Technology, as of June 30, 2005, and the respective changes in its financial position and the cash flows 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 December 21, 2005, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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 conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis 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.

INDEPENDENT AUDITOR'S REPORT (continued)

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

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

December 21, 2005

Stark State College of Technology
Management's Discussion and Analysis (MD&A)
For the year ended June 30, 2005

The discussion and analysis of the financial statements of Stark State College of Technology (the "College") provide an overview of financial activities for the years ended June 30, 2005 and 2004. Management has prepared the financial statements and the related note disclosures along with this discussion and analysis. The responsibility for the completeness and fairness of this information rests with the preparers.

Using this Annual Report

The College is reporting its financial position in accordance with the Governmental Accounting Standards Board (GASB) Statement 34 *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and GASB Statement 35 – *for Public Colleges and Universities*, as amended by GASB Statements 37 and 38. Comparative condensed financial information has been presented for the current year and the prior year.

This report consists of three basic financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. These statements provide information on the College as a whole, and present a snapshot of the College's finances. The following functions are included in the College's basic financial statements:

- Instruction
- Public Service
- Academic Support
- Student Services
- Institutional Support
- Plant Operations
- Student Aid
- Bookstore Operations

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

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

Condensed Statement of Net Assets		
<i>(in thousands)</i>		
	2005	2004
<u>Assets</u>		
Current Assets		
Cash & cash equivalents	\$8,326	\$9,642
Student accounts receivable, net	1,283	1,022
Intergovernmental receivables	2,269	1,449
Other current assets	1,105	828
Total current assets	12,983	12,941
Noncurrent Assets		
Capital assets, net	35,289	31,516
Other noncurrent assets	742	803
Total noncurrent assets	36,031	32,319
Total assets	\$49,014	\$45,260
<u>Liabilities & Net Assets</u>		
Current Liabilities		
Accounts payable & accrued liabilities	\$1,423	\$1,286
Deferred income	820	739
Other current liabilities	1,478	1,436
Total current liabilities	3,721	3,461
Long-Term Liabilities	579	541
Total liabilities	4,300	4,002
Net Assets		
Invested in capital assets, net of related debt	35,273	31,467
Restricted	1,037	1,072
Unrestricted	8,404	8,719
Total net assets	\$44,714	\$41,258

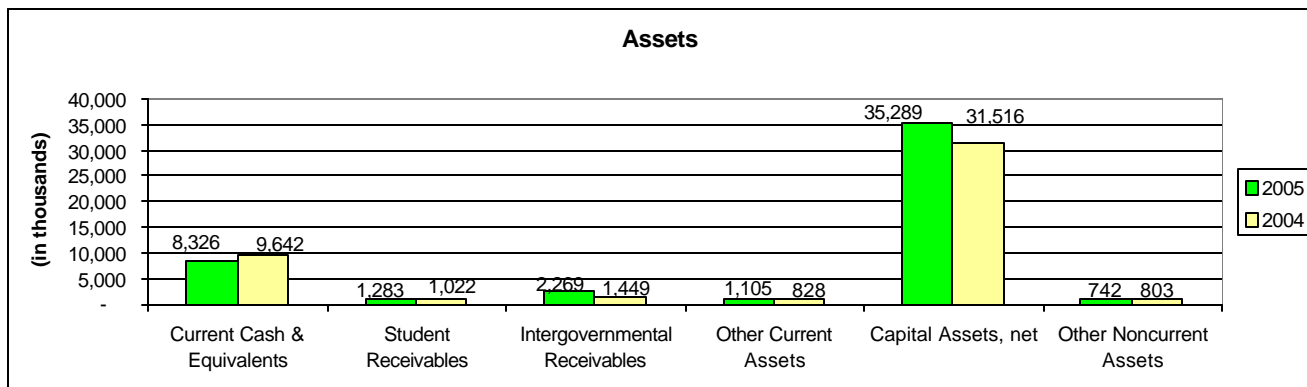
The Statement of Revenues, Expenses and Changes in Net Assets acts as a statement of the College's operations. Revenues and expenses on the accrual basis of accounting are detailed by operating type, and the reconciliation between the beginning and ending net assets is presented.

Condensed Statement of Revenues, Expenses and Changes in Net Assets				
<i>(in thousands)</i>				
	2005	2004	Increase / (Decrease) \$	Increase / (Decrease) %
<u>Revenues</u>				
Operating Revenues				
Tuition and fees, net	\$13,293	\$11,242	\$2,051	18.2%
Federal grants and contracts	7,306	7,431	(125)	-1.7%
Auxiliary enterprises: bookstore	2,920	2,512	408	16.2%
Other operating revenues	1,622	1,143	479	41.9%
Total operating revenues	<u>25,141</u>	<u>22,328</u>	2,813	12.6%
<u>Expenses</u>				
Operating Expenses				
Educational and general	34,430	31,278	3,152	10.1%
Auxiliary enterprises: bookstore	2,436	2,154	282	13.1%
Total operating expenses	<u>36,866</u>	<u>33,432</u>	3,434	10.3%
Operating income (loss)	<u>(11,725)</u>	<u>(11,104)</u>	(621)	-5.6%
<u>Nonoperating Revenues (Expenses)</u>				
State appropriations	13,853	11,547	2,306	20.0%
Other nonoperating income	224	154	70	45.5%
Other nonoperating expenses	(172)	(290)	118	-40.7%
Net nonoperating revenues (expenses)	<u>13,905</u>	<u>11,411</u>	2,494	21.9%
Income (loss) before other revenues, expenses, gains or losses	2,180	307	1,873	610.1%
Capital appropriations, gifts & grants	1,276	5,320	(4,044)	-76.0%
Increase in net assets	<u>3,456</u>	<u>5,627</u>	(2,171)	-38.6%
Net assets, beginning of year	41,258	35,631	5,627	15.8%
Net assets - end of year	<u>\$44,714</u>	<u>\$41,258</u>	\$3,456	8.4%

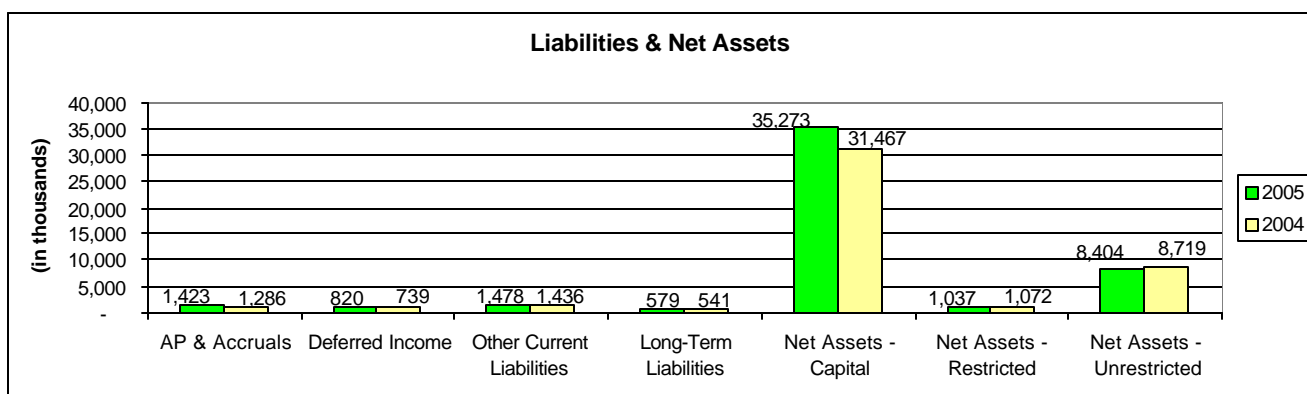
The Statement of Cash Flows presents the sources and uses of all cash transactions conducted by the College, broken down by type of functional activity. This statement assists the reader in determining the College's ability to generate future cash flows, meet its obligations as they become due and assess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

Condensed Statement of Cash Flows				
<i>(in thousands)</i>				
	2005	2004	Increase (Decrease)	
			\$	%
Net cash provided (used) by Operating Activities	(\$11,073)	(\$10,209)	(\$864)	-8.5%
Net cash provided (used) by Noncapital Financing Activities	13,123	11,336	1,787	15.8%
Net cash provided (used) by Capital Financing Activities	(3,684)	137	(3,821)	-2789.1%
Net cash provided (used) by Investing Activities	223	114	109	95.6%
Net increase in cash	<u>(1,411)</u>	<u>1,378</u>	<u>(\$2,789)</u>	<u>-202.4%</u>
Cash - beginning of year	9,980	8,602	1,378	16.0%
Cash - end of year	<u>8,569</u>	<u>9,980</u>	<u>(\$1,411)</u>	<u>-14.1%</u>

Analysis of Assets and Liabilities



Total assets increased by \$3,755,000 during the year to a year-end amount of \$49,014,000. Of this amount, \$3,773,000 was related to net capital asset increases. Total cash and cash equivalents, including restricted cash classified as other noncurrent assets, decreased by \$1,411,000. Receivables increased by \$1,161,000. Changes to all other asset categories amounted to a net increase of \$232,000.

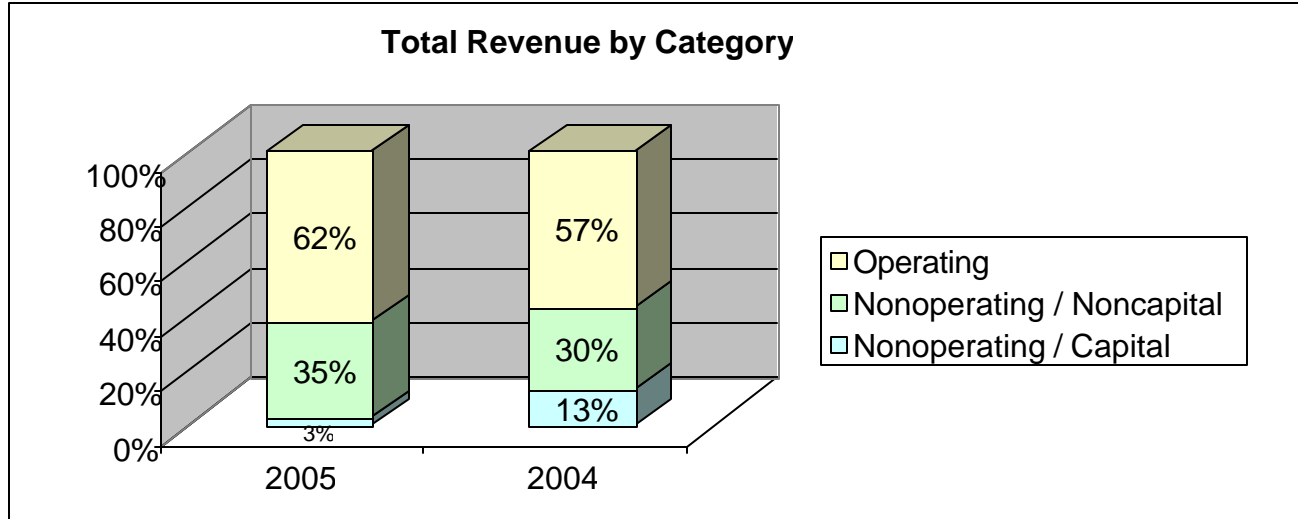


Total liabilities increased since the beginning of the year by \$299,000 to a year-end amount of \$4,300,000. The noncurrent long-term liabilities increased \$38,000 to \$579,000. Current liabilities increased by \$261,000 to \$3,721,000.

Total net assets increased \$3,456,000, of which \$3,806,000 was related to net capital assets. Unrestricted net assets decreased by \$315,000 while net restricted assets decreased \$35,000. The negative change in unrestricted net assets was the result of favorable operating results combined with large outlays of cash for capital projects, which are presented in the analysis of the Statement of Revenues, Expenses and Changes in Net Assets. The negative change in restricted net assets was the result of spending prior balances for restricted projects in excess of new restricted grants secured this year.

Analysis of Revenues

The following chart provides categorical ratios of the College's revenue as a whole for the years ended June 30, 2005 and 2004:

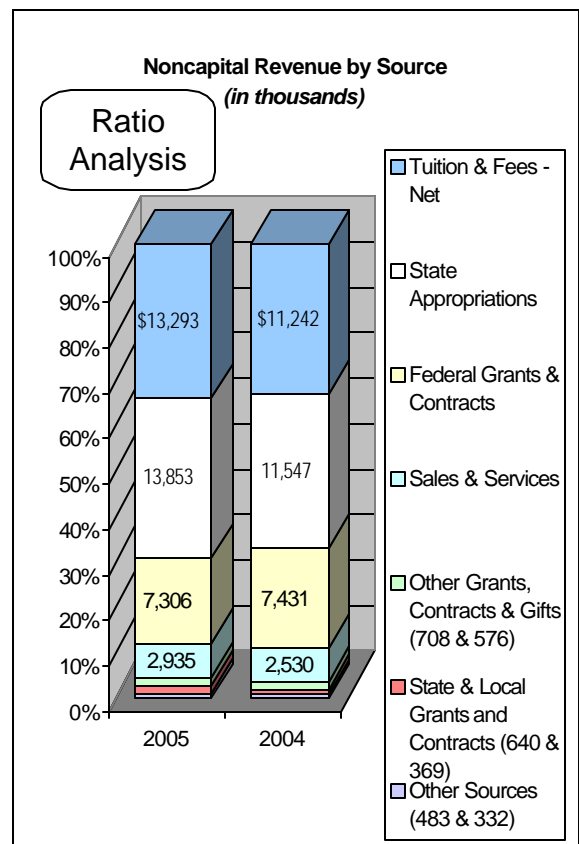


The State Share of Instruction and Access Challenge funding are the statutory burden of the State of Ohio for operating the College. These are classified as nonoperating revenue under generally accepted accounting principles, and they account for 34% and 29% of total revenue in 2005 and 2004. Other revenue includes capital appropriations, and is a subset of nonoperating revenue. The College received significant capital appropriations for the construction of the W.R. Timken Center for Information Technology in 2004.

A traditional comparison of the College revenue focuses on noncapital revenue. These are the funds which are spent for ongoing operations. The total of these revenues increased \$5.2 million this year (15.3%). This analysis will focus on the traditional revenues used for ongoing operations which are comparable to the prior year financial statements.

The Board of Trustees raised tuition starting in the Summer 2004 semester from \$108 to \$114 per credit hour. This tuition increase generated an additional \$625,000 in gross fees. Enrollment increases resulted in additional gross fees of \$1,426,000 over the previous year.

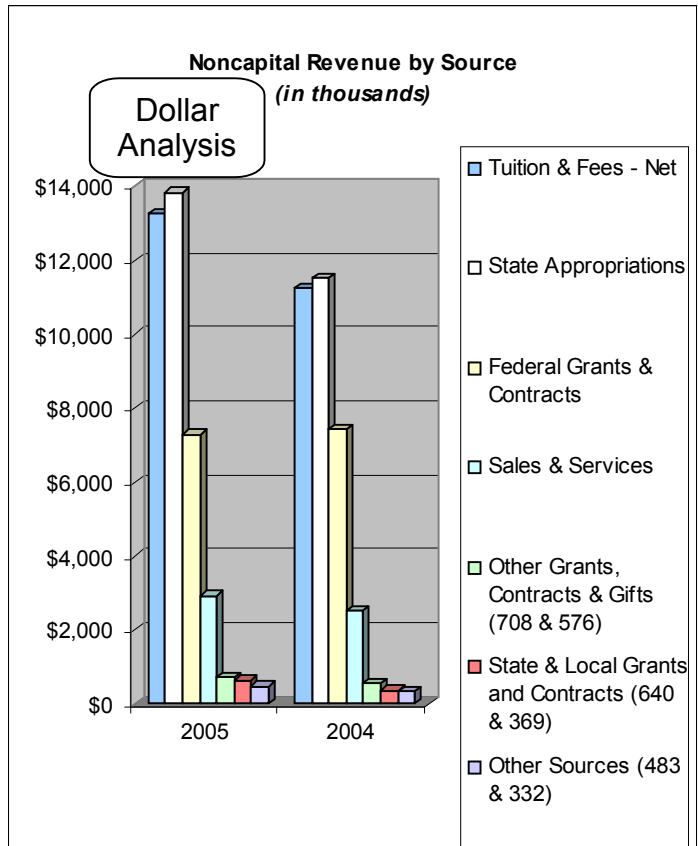
The State Share of Instruction and the Access Challenge state appropriation, two sources of State funding dedicated to support the operations of the College, increased from prior year levels by \$2,332,000. Additional Job Training appropriations declined slightly from the prior year.



Auxiliary enterprise revenue from the College bookstore, included in Sales & Services, increased this year by \$408,000 (16.3%) due to increased enrollment, which was partially offset by continuing declines in sales of non-textbook items.

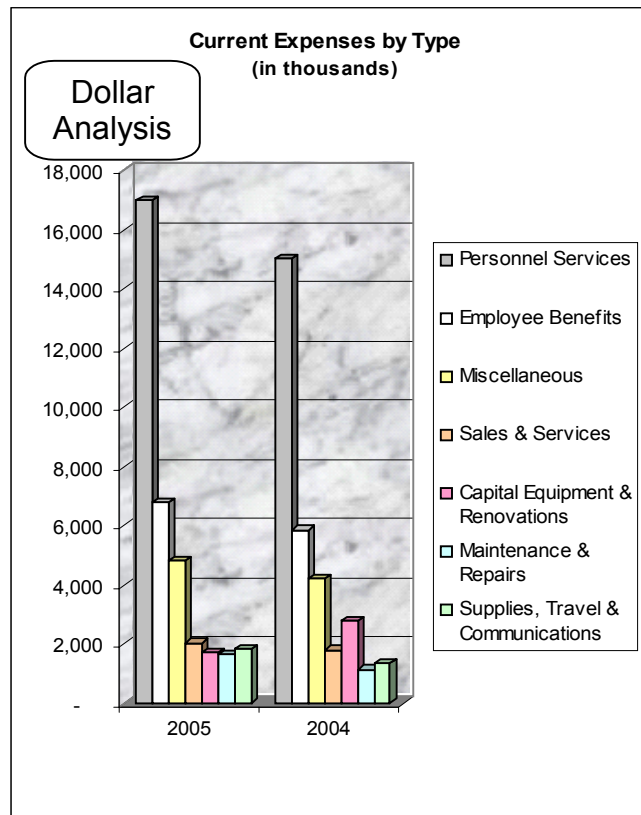
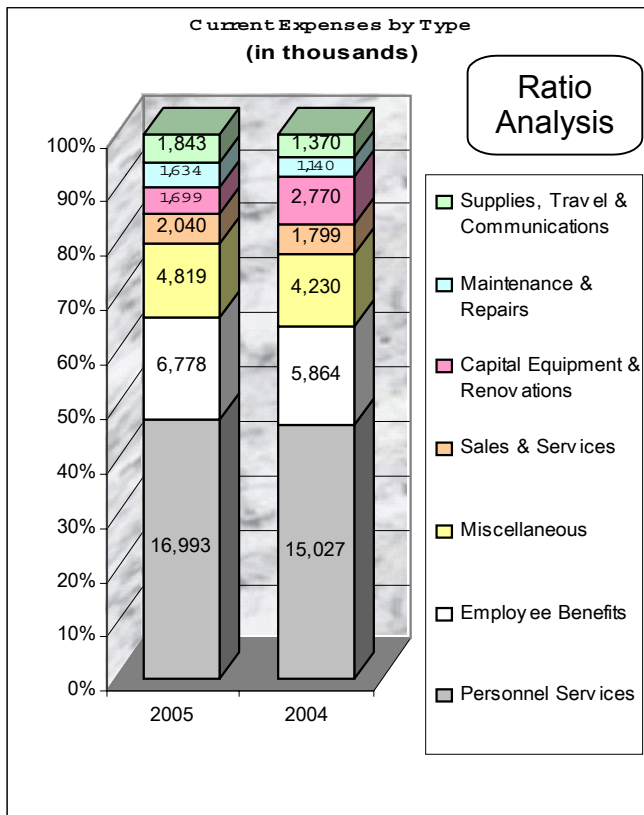
Increases in federal and state grants totaling \$146,000 were due to a large increase of Pell grants to students. In the prior year, the College received \$1,254,000 from the U.S. Department of Education's Fund for the Improvement of Post Secondary Education (FIPSE), for the development of an integrated systems technology program, an information reporting lab, and technology infrastructure upgrades. This funding did not recur in the current year.

Other noncapital revenue increased \$283,000 over the prior year, primarily due to increased interest earnings.



Analysis of Expenses

This analysis focuses on the College's operating budget categories; know as current expenses, which are normally reported in fund financial statements.



These expenses approximate the College's expenses reported in the Statement of Revenues, Expenses and Changes in Net Assets adjusted for depreciation and reduced by the capital equipment & renovations category, which were plant fund activities. While total enrollment increased 12.5%, total expenses only increased 11.2%

Total salary and wages increased 13.1%. The average general wage increased 4.6% for full time employees, and the College increased the usage of part-time instructors. Several full-time positions were created and filled over the staffing levels of the prior year. The instructional division of the College started a paramedic program during the spring of 2004, and the salaries for a full year were included in 2005. Additional adjunct faculty costs were incurred when larger than expected enrollment caused additional sections to be offered. Additionally, several part time instructors were given temporary full-time contracts, starting in January 2005.

Employee benefits experienced a net increase of 15.6% over the prior year. The major factors affecting benefits included a 10% increase in health care premiums, and general cost increases due to higher staffing levels, netted against savings from an increased use of adjunct faculty, who do not receive health care benefits, thereby decreasing the average net benefit cost per labor unit.

Miscellaneous expenses increased 13.9% over the prior year. Other expenses and computer software costs were up slightly from the prior year, while property and casualty insurance rates continued to see significant increases following the September 11, 2001 terrorist attacks, which caused major increases to property insurance rates industry-wide. Library Services are provided by Kent State University's Stark Campus, for which the College pays based on enrollment. Therefore Library costs, as well as bad debts, increased due to increased enrollment. Other costs which contributed to the categorical increase included legal fees and other contracted services.

Sales and Services expenses increased by 13.4%. This was a result of increases in labor costs, wholesale book prices, and sales volume increases due to higher enrollment.

Equipment purchases from the operating budget declined (-38.7%) from the prior year. This was due in part to reduced grant funding for equipment, the purchase of large amounts of computer equipment through plant funds and the reduction of equipment needs compared to the prior year when substantial funds were needed for equipping the W.R. Timken Center for Information Technology.

Maintenance and Repairs increased 43.3% over the prior year due to increased utilities costs with the opening of the W.R. Timken Center for Information Technology, the Ralph Regula Wellness and Therapy Center, and the new Automotive Technology Center. Additional natural gas and electricity were purchased, which represent much of the categorical increase. Other maintenance and repair items increased as the College focused on preventing deferred maintenance problems.

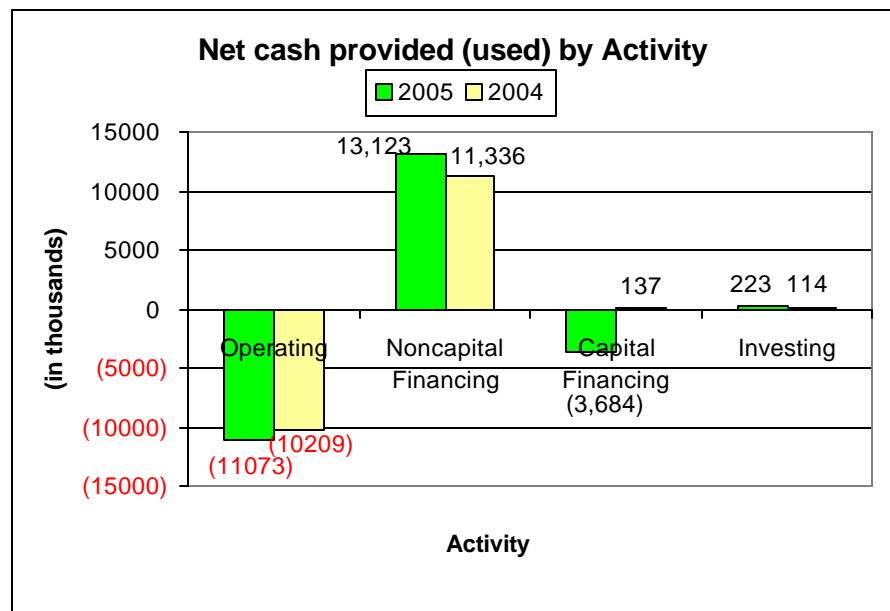
Supplies costs increased 34.1% this year. Much of these costs were incurred with grants which supplied the College with additional classroom materials and uncapitalized small equipment. Improved procurement procedures helped contain costs, despite the large increase in enrollment. Materials costs for minor renovation projects by the Maintenance Department were incurred, but not capitalized under the College's capitalization policy.

Travel costs increased 22.7%, but remain below the levels of three years ago. The College made a commitment to providing additional professional development as part of its strategic plan in 2004. The instructional division developed in-house professional development programs which helped constrain the rate of growth. There will continue to be an increase in travel and professional development in coming years.

Communications expenses increased by 39.5%. The reprographics department purchased new equipment that has a lower operating cost, resulting in additional savings, but the usage increased significantly. Postage costs increased due to additional direct marketing efforts, coupled with increased enrollment-driven mailing activity. Telecommunications costs associated with increased distance learning and additional locations rose substantially, as well as significantly increased Marketing and Advertising to promote satellite locations in downtown Canton, Carrollton and Alliance, Ohio.

Analysis of Cash Flows

The College's liquidity decreased during the year, primarily due to higher than projected enrollment and aggressive cost containment measures being offset by large outlays of local funding for capital assets. Proceeds from state funding for general operations increased over the prior year. By definition, noncapital financing activities include the subsidy from the Board of Regents called State Share of Instruction, and the



Access Challenge appropriation. These line items have increased due to the College's proportional enrollment increases compared to all other state assisted institutions of higher education over the past two years.

Operating activities provided lower net cash flow in total from the prior year. Gross tuition, grants and bookstore proceeds increased this year primarily because of increased tuition rates, increased enrollment and successful grant applications. Significant increases in the use of cash included larger payments for labor, payments to suppliers and student aid, while other receipts increased modestly.

Noncapital financing improved due to additional support from the State of Ohio.

Capital financing activities provided fewer proceeds from state appropriations, which were used to pay for the acquisition of capital equipment the purchase of land and a building for the new Automotive Technology Center in 2005. Over \$3.3 million in local funds were used to renovate this new building and to pay for land acquisition adjacent to the north side of the campus in 2005. These were the largest outlays of local funds from current operations for capital projects in the history of the College. A combination of state and local funds were used to construct the W.R. Timken Center for Information Technology in 2004. These purchases constituted the majority of the College's capital activity.

Economic Outlook for the Future

Management foresees funding issues in the next state biennium. Past changes to the state's funding formula have adversely affected the technical colleges across the state, and another major revision to the formula is under development. The economy has not bounced back this year like state economists had predicted, although it is doing better than the last fiscal year. The State of Ohio is phasing out its corporate franchise tax in favor of a commercial activities tax which is more broad-based. The effects of this change on total state revenue will not be known until March 2006. A shortage in the this tax revenue could have an adverse affect on state appropriations. The state must balance its budget by law, and it has almost reached its borrowing limits. The state has recently raised taxes and reduced expenses, but the inflow of additional resources has not quite met their projections. The workforce and GDP of the State of Ohio are still stagnating, which leaves little hope for a quick turn-around in the local and state economy. Management does not believe a severe crisis will occur during FY2006.

In the past five fiscal years, the College's funding was reduced in four separate state budget-balancing actions. Higher education budgets received disproportionately higher funding reductions in these years, because colleges and universities were able to increase fees to cover their costs. While balancing the state's biennial budget in May 2003, the legislature mandated a 6% cap on tuition increases between school years. Under a weighted-average formula, the College's tuition increase was calculated at 4.2%.

Final Analysis

Stark State College hired Dr. John O'Donnell as its third president since its inception, effective January 5, 2004. Dr. O'Donnell is committed to establishing new programs in emerging technologies that can increase enrollment and promote economic development in the College's service area.

Funding uncertainty at the state level has made planning difficult. The economy has stretched the demand for the College's resources. Even with all the uncertainty that surrounds these situations, the College remains financially sound.

Between the increased productivity in the classroom, cost saving measures implemented, and increased enrollment (i.e.: additional tuition dollars), the College is maintaining its position despite the current state budget situation. Even as the state's funding of capital projects declines, the College has provided for the renewal of, and addition to, its facilities by establishing a dedicated fee for such purposes.

Beyond this, Management has developed a wide-ranging set of contingency options in the event of additional funding cuts by the legislature, with the intent of not compromising its philosophy, goals, objectives and values.

Management firmly believes that the overall financial position of the College is strong, and that the College has demonstrated improvement in its financial condition during the past year. Debt has been reduced, cash reserves have increased, revenues expanded and expenses have been constrained. The College's enrollment, reserves and cash position are sufficient to endure limited economic downturns in the near future.

FINANCIAL STATEMENTS

STARK STATE COLLEGE OF TECHNOLOGY
STATEMENT OF NET ASSETS
JUNE 30, 2005

ASSETS

Current Assets	
Cash and Cash Equivalents	\$8,325,566
Student Accounts Receivable, Net	1,283,073
Intergovernmental Receivables	2,268,957
Other Receivables, Net	289,113
Prepaid Expenses and Deferred Charges	168,348
Insurance Reserve	336,398
Inventories at Cost	312,102
Total Current Assets	<u>12,983,557</u>
Noncurrent Assets	
Restricted Cash and Cash Equivalents	243,914
Restricted Investments	5,334
Endowment Investments	223,808
Prepaid Expenses and Deferred Charges	955
Insurance Reserve	267,702
Capital Assets, Net	35,289,421
Total Noncurrent Assets	<u>36,031,134</u>
Total Assets	<u>\$49,014,691</u>

LIABILITIES

Current Liabilities	
Accounts Payable and Accrued Liabilities	1,423,110
Deferred Income	820,467
Accrued Salaries and Wages	852,074
Insurance Claims Payable	336,398
Compensated Absences	118,294
Deposits Held for Others	135,193
Long-Term Liabilities - Current Portion	35,865
Total Current Liabilities	<u>3,721,401</u>
Noncurrent Liabilities	
Long-Term Liabilities	<u>578,983</u>
Total Liabilities	<u>4,300,384</u>

NET ASSETS

Invested in Capital Assets, Net of Related Debt	35,272,683
Restricted for	
Nonexpendable	
Scholarships	255,945
Expendable	
Student Grants and Scholarships	148,245
Public Service	182,333
Instructional Departments	123,116
Student Services	1,039
Capital Projects	316,289
Student Loans	8,301
Other	2,720
Unrestricted	<u>8,403,636</u>
Total Net Assets	<u>\$44,714,307</u>

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

STARK STATE COLLEGE OF TECHNOLOGY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

REVENUES:

Operating Revenues:	
Student Tuition and Fees (Net of Scholarship Allowances of \$2,878,038)	\$13,292,537
Federal Grants and Contracts	7,306,306
State and Local Grants and Contracts	639,747
Nongovernmental Grants and Contracts	705,163
Sales and Services of Educational Departments	14,566
Auxiliary Enterprises: Bookstore	2,920,456
Other Operating Revenues	261,859
	<hr/>
Total Operating Revenues	25,140,634

EXPENSES:

Operating Expenses:	
Educational and General:	
Instruction	14,363,531
Academic Support	3,023,221
Student Services	2,364,089
Institutional Support	4,819,663
Operation and Maintenance of Plant	2,938,649
Student Aid	3,463,926
Public Service	2,225,201
Depreciation	1,231,328
Auxiliary Enterprises: Bookstore	2,436,033
	<hr/>
Total Operating Expenses	36,865,641

Operating (Loss)	<hr/> (11,725,007)
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NONOPERATING REVENUES (EXPENSES)

State Appropriations	13,852,803
Gifts	3,075
Investment Income	220,999
Interest on Capital Asset-Related Debt	(1,479)
Other Nonoperating Revenues (Expenses)	(170,645)
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Net Nonoperating Revenues (Expenses)	<hr/> 13,904,753
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Income Before Other Revenues, Expenses, Gains or Losses	2,179,746
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Capital Appropriations	514,270
Capital Grants and Gifts	762,227
	<hr/>

Increase in Net Assets	3,456,243
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Net Assets, Beginning of Year	<hr/> 41,258,064
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Net Assets, End of Year	<hr/> <hr/> \$44,714,307
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The notes to the financial statements are an integral part of this statement.

**STARK STATE COLLEGE OF TECHNOLOGY
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

CASH FLOWS FROM OPERATING ACTIVITIES:	
Tuition and Fees	\$13,119,555
Grants and Contracts	8,144,304
Payments to Suppliers	(8,509,634)
Payments to Employees and for Benefits	(23,572,440)
Payments for Student Aid	(3,463,926)
Loans Issued to Students	1,900
Auxiliary Enterprise Charges: Bookstore	2,908,854
Sales and Service of Educational Activities	14,358
Other Receipts (Payments)	<u>283,719</u>
Net Cash (Used for) Operating Activities	<u>(11,073,310)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
State Appropriations	13,852,803
Gifts and Grants for Other than Capital Purposes	(167,570)
Stafford, NEALP and Other Loans Received	9,521,443
Stafford, NEALP and Other Loans Disbursed	(9,521,443)
Agency Transactions	<u>(562,099)</u>
Net Cash Provided by Noncapital Financing Activities	<u>13,123,134</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:	
Capital Appropriations	594,724
Capital Grants and Gifts Received	762,227
Purchases of Capital Assets	(5,004,598)
Principal Paid on Capital Debt and Leases	(34,731)
Interest Paid on Capital Debt and Leases	<u>(1,479)</u>
Net Cash (Used for) Capital Financing Activities	<u>(3,683,857)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from Sales and Maturities of Investments	11,307
Interest on Investments	<u>211,907</u>
Net Cash Provided by Investing Activities	223,214
Net (Decrease) in Cash	(1,410,819)
Cash - Beginning of Year	<u>9,980,299</u>
Cash - End of Year	<u><u>\$8,569,480</u></u>
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH (USED FOR) OPERATING ACTIVITIES:	
Operating (Loss)	(\$11,725,007)
Adjustments to Reconcile Net (Loss) to Net Cash (Used For)	
Operating Activities:	
Depreciation Expense	1,231,328
Changes in Assets and Liabilities	
Receivables, Net	(773,888)
Inventories	(73,784)
Other Assets	(160,104)
Accounts Payable	316,896
Deferred Revenue	81,750
Compensated Absences	<u>29,499</u>
Net Cash (Used For) Operating Activities	<u><u>(\$11,073,310)</u></u>

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

STARK STATE COLLEGE OF TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

1. DESCRIPTION OF THE ENTITY

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

- A. Basis of Presentation – The College reports as “business type activities”, as defined by GASB Statement No. 35. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. In accordance with GASB Statement No. 35, the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows are reported on a consolidated basis.
- B. Measurement Focus - The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred. All significant interfund transactions have been eliminated.
- C. Operating and Non-Operating Revenues and Expenses – Operating revenues are those that generally result from exchange transactions such as payments received for providing goods and services and payments made for goods or services. Non-operating revenues and expenses result from capital and related financing activities, noncapital financing activities including state appropriations or investing activities.
- D. Deferred Income – Deferred income arises when assets are recognized before revenue recognition criteria have been satisfied. The unearned portion of student tuition and fees for the summer session and all of the recorded student tuition and fees resulting from early registration for the fall session have been deferred.

STARK STATE COLLEGE OF TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

During fiscal year 2005, investments were limited to STAR Ohio, mutual funds and donated common stock.

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

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

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

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

STARK STATE COLLEGE OF TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements which extend the useful life or increase the capacity or operating efficiency of the asset are capitalized at cost. Infrastructure assets consisting of roads, sidewalks, parking lots, lighting systems and signage are capitalized and reported. The College's capitalization threshold is \$5,000 for equipment, \$50,000 for buildings and \$250,000 for infrastructure.

- H. Insurance Reserve – The insurance reserve is based on a percentage of ownership in the Stark County Local School System – Health Benefit Plan prepared by the Stark County Council of Governments:
- I. Compensated Absences - Vacation leave and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by the employees if both of the following conditions are met:
1. The employees' rights to receive compensation are attributable to services already rendered.
 2. It is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

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

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

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

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

STARK STATE COLLEGE OF TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- J. Net Assets – Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use. The College identifies net assets restricted as either nonexpendable or expendable. Nonexpendable net assets represent endowment contributions from donors that are permanently restricted as to principal. Expendable net assets relate to grants and contract activity, whose use is subject to externally imposed restrictions. Unrestricted net assets are not subject to restrictions and may be designated for specific purposes by the Board of Trustees.
- K. Grants and Scholarships – Student tuition and fees are presented net of grants and scholarships applied directly to student accounts.
- L. Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.
- M. Public Entity Risk Pools

Shared Risk Pool

Stark County School Council of Governments Health Benefit Plan – The Stark County School Council of Governments Health Benefit Plan (Council) is a shared risk pool created pursuant to State statute for the purpose of administering health care benefits. The Council is governed by an assembly which consists of one representative from each participating entity (usually the superintendent or designee). The assembly elects officers for one year terms to serve on the Board of Directors. The assembly exercises control over the operation of the Council. All Council revenues are generated from charges for services received from the participating entities, based on the established premiums for the insurance plans. Each entity reserves the right to terminate the plan in whole or in part, at any time. If it is terminated, no further contributions will be made, but the benefits under the insurance contract shall be paid in accordance with the terms of the contract.

3. CASH AND INVESTMENTS

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

STARK STATE COLLEGE OF TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

3. CASH AND INVESTMENTS (continued)

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

- B. Cash on Hand - At June 30, 2005, the College had \$3,934 in undeposited cash on hand which is reported as "Cash" on the Statement of Net Assets.
- C. Deposits - At June 30, 2005, the reported amount of the College's deposits was \$(305,736) and the bank balance was \$16,980 which was covered by the FDIC.
- D. Investments - As of June 30, 2005, the College had the following investments and maturities:

Investment Type	Fair Value	Investment Maturity (In Years)	
		1	1 - 5
Insurance Reserve	\$604,100	\$336,398	\$267,702
Repurchase Agreement	380,000	380,000	0
STAR Ohio	8,491,282	8,491,282	0
U.S. Treasuries	52,363	0	52,363
Money Market	14,666	14,666	0
Mutual Funds	7,505	7,505	0
	9,549,916	<u>\$9,229,851</u>	<u>\$320,065</u>
Corporate Stock	154,608		
	<u>\$9,704,524</u>		

STARK STATE COLLEGE OF TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

3. CASH AND INVESTMENTS (continued)

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The College's Investment Policy does not address investment maturities.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Investments had the following ratings by Standard & Poors and their percentage of total investments:

CS	A	.38%
CS	A-	.09%
CS	AA	.14%
CS	AA-	.11%
CS	AAA	.18%
CS	AA+	.05%
CS	A+	.15%
CS	BBB	.08%
CS	BBB-	.02%
CS	BBB+	.09%
CS	Ratings not Available	.34%
CS	Not Rated	.05%
Mutual Funds	A	.08%
STAR Ohio	AAAm	93.00%

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the College will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are held as follows:

Repurchase Agreements – Counterparty's trust department in the College's name.

Corporate Stock, Money Market, U.S. Treasury Notes – Counterparty

Concentration of Credit Risk: The College places no limit on the amount that may be invested in any one issuer. Ninety-three percent of the College's investments are in STAR Ohio.

STAR Ohio is an investment pool managed by the State Treasurer's Office that allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price that is the price the investment could be sold for on June 30, 2005.

STARK STATE COLLEGE OF TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

4. CAPITAL ASSETS

A summary of the changes in capital assets and related accumulated depreciation during fiscal year 2005 follows:

	Balance 06/30/2004	Additions	Deletions	Balance 06/30/2005
Capital Assets, Not Being Depreciated:				
Land	\$1,943,485	\$1,654,700	\$0	\$3,598,185
Construction in Progress	8,973,311	709,819	(8,879,081)	804,049
Total Capital Assets, Not Being Depreciated	<u>10,916,796</u>	<u>2,364,519</u>	<u>(8,879,081)</u>	<u>4,402,234</u>
Capital Assets, Being Depreciated:				
Land Improvements	2,281,667	455,802	0	2,737,469
Buildings	28,790,465	10,561,663	0	39,352,128
Equipment	3,546,010	635,623	(137,086)	4,044,547
Library Books	28,705	5,263	(2,105)	31,863
Infrastructure	193,127	0	0	193,127
Total Capital Assets, Being Depreciated	<u>34,839,974</u>	<u>11,658,351</u>	<u>(139,191)</u>	<u>46,359,134</u>
Less Accumulated Depreciation For:				
Land Improvements	739,896	96,890	0	836,786
Buildings	11,185,757	877,379	0	12,063,136
Equipment	2,229,496	384,441	(137,086)	2,476,851
Library Books	11,599	3,118	(2,105)	12,612
Infrastructure	73,871	8,691	0	82,562
Total Accumulated Depreciation	<u>14,240,619</u>	<u>1,370,519</u>	<u>(139,191)</u>	<u>15,471,947</u>
Capital Assets, Being Depreciated, Net	<u>20,599,355</u>	<u>10,287,832</u>	<u>0</u>	<u>30,887,187</u>
Capital Assets Net	<u>\$31,516,151</u>	<u>\$12,652,351</u>	<u>(\$8,879,081)</u>	<u>\$35,289,421</u>

5. LONG-TERM LIABILITIES

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Capital Lease Obligation	\$49,169	\$0	(\$32,431)	\$16,738	\$10,602
Other Lease Obligations	2,300	0	(2,300)	0	0
Compensated Absences	568,611	29,499	0	598,110	25,263
Total	<u>\$620,080</u>	<u>\$29,499</u>	<u>(\$34,731)</u>	<u>\$614,848</u>	<u>\$35,865</u>

STARK STATE COLLEGE OF TECHNOLOGY
 NOTES TO FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2005

5. LONG-TERM LIABILITIES (continued)

The College has the following future minimum payments for capital leases:

Fiscal Year Ending June 30,	
2006	\$11,146
2007	6,378
Total	17,524
Less Amount Representing Interest	(786)
Present Value of Minimum Lease Payments	\$16,738

6. DEFINED BENEFIT PENSION PLANS

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

A. State Teachers Retirement System

The College participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STAR Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, OH 43215-3371 or by calling (614)227-4090.

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 final average salary times a percentage that varies based on years of service, or an 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 percent 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. Benefits are established by Chapter 3307 of the Ohio Revised Code.

STARK STATE COLLEGE OF TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

6. DEFINED BENEFIT PENSION PLANS (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 designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The College was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The College's required contributions for pension obligations fiscal years ended June 30, 2005, 2004 and 2003 were \$1,342,672, \$1,173,691 and \$1,103,082 respectively; equal to the required contribution for each fiscal year.

B. Public Employees Retirement System of Ohio

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

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension benefit obligations and the College is required to contribute 13.31 percent; 9.31 percent was the portion used to fund pension obligations. Contributions are authorized by state statute. The contribution rates are determined actuarially. The College's contributions for pension obligations to OPERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$557,866, \$445,123 and \$419,092, respectively, equal to the required contributions for each fiscal year.

STARK STATE COLLEGE OF TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

7. POSTEMPLOYMENT BENEFITS

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

Pursuant to the Ohio Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. For the fiscal year ended June 30, 2005, the Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the College, this amount equaled \$103,282 during fiscal 2005.

The balance in the Health Care Reserve Fund was \$3.1 billion at June 30, 2004 (latest information available). For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000, and STRS Ohio had 111,853 eligible benefit recipients statewide.

The Ohio Public Employees Retirement System (OPERS) provides post-retirement health care coverage to age and service retirees with ten 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 Post-Employment Benefit (OPEB) as described in GASB Statement No. 12, "Disclosure of Information on Post-Employment Benefits by State and Local Governmental Employers". A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The fiscal 2004 employer contribution rate was 13.31 percent of covered payroll; 4.0 percent was the portion that was used to fund health care for the year. The College's actual contributions for fiscal year 2005 which were used to fund post-employment benefits were \$239,685.

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

STARK STATE COLLEGE OF TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

7. POSTEMPLOYMENT BENEFITS (continued)

The following assumptions and calculations were based on OPERS' latest actuarial review performed as of December 31, 2003. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25 percent of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2003 was 8.00 percent. An annual increase of 4.00 percent compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00 percent base increase, were assumed to range from 0.50 percent to 6.3 percent. Health care costs were assumed to increase 4.0 percent annually.

OPEBs are advance-funded on an actuarially determined basis. As of December 31, 2003 (the latest information available), the actuarial value of OPERS' net assets available for OPEB was \$10.5 billion. The number of active contributing participants statewide at December 31, 2004 was 369,885. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 billion respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

8. CONTINGENCIES

A. Federal and State Grants

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

B. Litigation

A claim is pending against the College. It is management's opinion that the ultimate liability will not have a material effect on the financial statements.

STARK STATE COLLEGE OF TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

9. RISK MANAGEMENT

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

The College is a member of the Stark County Schools Council of Governments, a shared risk pool (see Note 2), which was established to provide a partially self-funded health benefits program to its members. The College pays a monthly premium to the Council of Governments for its health care coverage. The health plan is self-sustaining through member premiums and reinsures through an insurance company to pay claims in excess of \$250,000 per individual and \$74,479,000 for the group as a whole.

The insurance claims payable of \$336,398 is based on the requirements of GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The claims liability is based on an estimate supplied by the Council of Governments. A summary of the claims liability during the past two fiscal years are as follows:

	Balance at Beginning of Fiscal Year	Current Fiscal Year Claims	Claims Payments	Balance at End of Fiscal Year
2004	\$246,557	\$2,035,695	(\$1,999,921)	\$282,331
2005	\$282,331	\$2,539,150	(\$2,485,083)	\$336,398

10. RELATED ORGANIZATIONS

The Stark State College Foundation (the Foundation) is a not-for-profit organization which operates under a separate board exclusively for the benefit of the College and is therefore not included in the College's June 30, 2005 financial statements. At June 30, 2005, the total net assets of the Foundation, not included in the financial statements of the College, were \$1,805,072. During the year ended June 30, 2005, the Foundation contributed to the College \$144,221 for scholarships, professional development, instructional equipment and supplies, and other projects.

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

We have audited the financial statements of the Stark State College of Technology (the College), as of and for the year ended June 30, 2005, and have issued our report thereon dated December 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control 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 operations 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 that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of the College, in a separate letter dated December 21, 2005.

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* (continued)

This report is intended solely for the information and use of management, the Board of Trustees and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

December 21, 2005

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

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

Compliance

We have audited the compliance of the Stark State College of Technology (the College) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The College's major federal programs are 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 each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

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

In our opinion, the Stark State College of Technology complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

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

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 management, the Board of Trustees and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

December 21, 2005

Stark State College of Technology
Schedule of Federal Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2005

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Receipts	Disbursements
<u>U.S. Department of Education</u>				
Student Financial Assistance Programs Cluster:				
Federal Work-Study Program	84.033	-	\$214,165	\$202,970
Federal Supplemental Educational Opportunity Grants	84.007	-	151,515	147,256
Federal Pell Grant Program	84.063	-	5,818,649	5,892,691
Federal Family Educational Loans	84.032	-	9,531,873	9,531,873
Total Student Financial Assistance Programs Cluster			15,716,202	15,774,790
Higher Education - Institutional Aid	84.031	-	236,585	80,241
<i>Passed Through Ohio Department of Education:</i>				
Vocational Education - Basic Grants to States	84.048	VECPII-P2004-508	63,550	0
Vocational Education - Basic Grants to States	84.048	VECPII-P2005-508	92,164	142,154
Total Vocational Education - Basic Grants to States			155,714	142,154
Higher Skills Partnership Initiative	17.258	IRN-WF-HS-2004	7,362	0
Tech-Prep Education	84.243	VETP-2004-13-FB	5,551	0
Tech-Prep Education	84.243	VETP-2005-13-FB	131,852	169,987
<i>Passed Through Ohio Department of Regents:</i>				
Tech-Prep Education	84.243	-	0	6,616
Total Tech-Prep Education			137,403	176,603
Fund for the Improvement of Postsecondary Education	84.116	-	509,816	599,674
Total Federal Assistance - U.S. Department of Education			16,763,082	16,773,462
<u>U.S. Department of Health and Human Services</u>				
Health Care and Other Facilities	93.887	-	239,629	31,164
Total Federal Assistance - U.S. Department of Health and Human Services			239,629	31,164
<u>National Science Foundation Program</u>				
Education and Human Resources	47.076	-	62,086	71,333
Total Federal Assistance - National Science Foundation Program			62,086	71,333
Total Federal Assistance			\$17,064,797	\$16,875,959

The notes to this Schedule are an integral part of this Schedule.

**STARK STATE COLLEGE OF TECHNOLOGY
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

STARK STATE COLLEGE OF TECHNOLOGY

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §505**

FOR THE FISCAL YEAR ENDED JUNE 30, 2005

1. SUMMARY OF AUDITOR'S RESULTS

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

STARK STATE COLLEGE OF TECHNOLOGY

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §505**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(CONTINUED)**

(d)(1)(vii)	Major Programs:	Student Financial Assistance Programs Cluster: Federal Work-Study Program, CFDA #84.033; Federal Supplemental Educational Opportunity Grants, CFDA #84.007; Federal Pell Grant Program, CFDA #84.063; Federal Family Education Loans, CFDA #84.032
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$504,873 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

None

3. FINDINGS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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STARK STATE COLLEGE OF TECHNOLOGY

STARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 9, 2006**