SOUTHERN STATE COMMUNITY COLLEGE

Financial Report With Additional Information
For The Year Ended June 30, 2002

PARMS & COMPANY, LLC
CERTIFIED PUBLIC ACCOUNTANTS

STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

We have reviewed the Independent Auditor's Report of the Southern State Community College, Highland County, prepared by Parms & Company, LLC, for the audit period July 1, 2001 through June 30, 2002. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

JIM PETRO
Auditor of State

November 19, 2002

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SOUTHERN STATE COMMUNITY COLLEGE

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PARMS & COMPANY, LLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Southern State Community College
Hillsboro, Ohio

We have audited the accompanying basic financial statements of Southern State Community College (the College), a component unit of the State of Ohio, as listed in the table of contents, as of June 30, 2002, and for the year then ended. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Southern State Community College as of June 30, 2002, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the College adopted the provisions of Governmental Accounting Standards Board Statement Nos. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities* as of July 1, 2001.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2002, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis presented on pages 3 through 8 is not a required part of the basic financial statements but is supplemental 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 supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements of Southern State Community College. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole

Parms & Company, LLC

October 10, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDING JUNE 30, 2002

New Accounting Standards

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

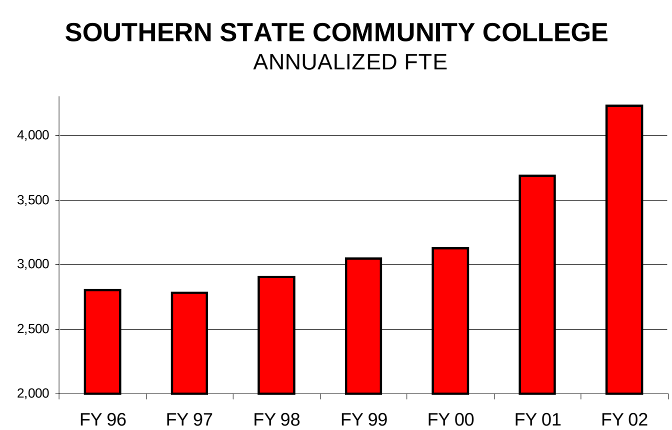
The following discussion and analysis provides an overview of the College's financial activities. Since this is a transition year for the new format, only one year of information is presented in the final audited financial statements. For management's discussion and analysis, the previous year's financial information has been restated in order to provide a comparison.

The new accounting standards resulted in an adjustment to the beginning net assets to address both newly adopted capitalization thresholds and depreciation.

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

Financial and Enrollment Highlights

- In this report, FY 2001 has been restated for comparison purposes. However, two significant adjustments have been made to the previously reported on FY 2001 financials as a result of the new accounting standards discussed above. The adoption of recommended capitalization threshold required the write-off of previously capitalized equipment costing less than $5,000 and the recording of accumulated depreciation and depreciation expense on capitalized assets. The effect of these adjustments was to reduce previously reported FY 2002 net assets by $5,370,514 and $6,763,837, respectively. Fiscal year 2001 reported information has been restated to reflect these adjustments. Accordingly, net assets decreased by 2%, primarily related to the new requirement to record depreciation expense.
- The combination of a 15% annual enrollment increase and only the second tuition increase since 1995 resulted in an increase in gross student fee revenue of 22%.



- Despite the enrollment increase, State Subsidy decreased by 2%.
- Health care premiums increased 13% in FY 02 and will increase 20% in FY 03. The short-term impact has been partially reduced by Anthem demutualization.

Statement of Net Assets

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

	FY 2002	FY 2001	Change
Current assets:			
Cash and short-term investments	2,084,967	1,395,565	49%
Receivables	1,003,300	884,970	13%
Inventory, prepaids and other	146,457	237,128	-38%
Total current assets	3,234,724	2,517,663	28%
Non-current assets:			
Other assets	12,060	12,060	0%
Capital assets, net of depreciation	14,142,323	14,431,999	-2%
Total non-current assets	14,154,383	14,444,059	-2%
Total assets	17,389,107	16,961,722	3%
Current liabilities:			
Accounts payable & accrued liab.	460,901	537,203	-14%
Deferred revenue	531,584	104,061	411%
Long-term liabilities - current portion	55,909	54,190	
Total current liabilities	1,048,394	695,454	51%
Non-current liabilities:			
Long-term liabilities	244,922	241,305	1%
Total liabilities	1,293,316	936,759	38%
Net assets:			
Invested in plant	14,044,632	14,301,402	-2%
Restricted	664,805	465,767	43%
Unrestricted	1,386,354	1,257,794	10%
Total net assets	16,095,791	16,024,963	0%

The Cash and Short-Term Investments increase reflects additional student fee income and proceeds from the demutualization of the College's health insurance provider.

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

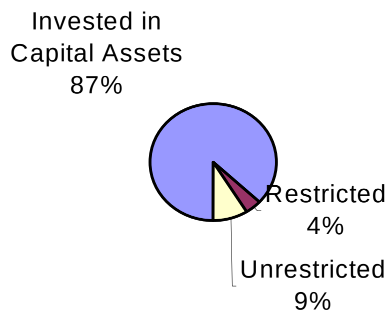
Accounts Payable increased primarily due to accrued salaries and timing of payroll withholdings. Vendor accounts are paid well within 30 days.

Deferred Revenue is largely represented by tuition and fees generated from registrations for the next fiscal year, FY 2003. These dollars will be recognized in the following year's financial statements. Part of the FY 2002 deferred revenues is applicable to grant funds received but not spent.

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

Net Assets include the net investment in capital assets and both restricted and unrestricted funds. As mentioned earlier the decrease from FY 01 to FY 02 is primarily due the change in capitalization thresholds.

Net Assets
June 30, 2002



Statement of Revenues, Expenses and Changes in Net Assets

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

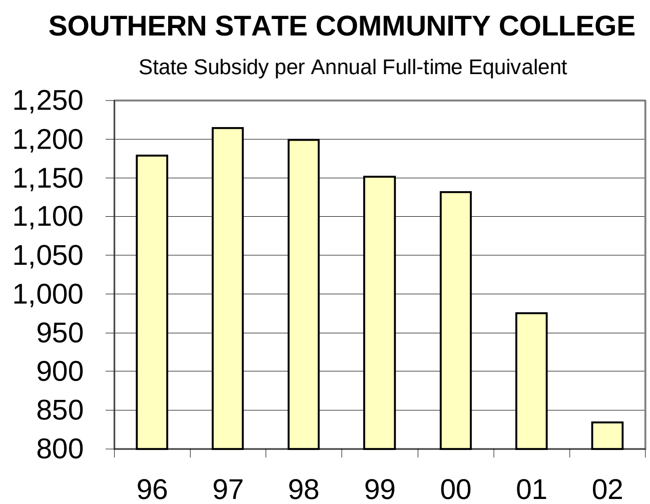
	FY 2002	FY 2001
Operating Revenue:		
Net tuition and fees	$ 3,214,954	$ 2,511,524
Auxiliary services	2,335,738	1,587,405
Grants and contracts	4,726,586	5,187,771
Other	67,155	55,413
Total	10,344,433	9,342,113
Operating Expenses	13,846,458	13,017,920
Net Operating Expenses	(3,502,025)	(3,675,807)
Non-Operating Revenues:		
State subsidy	3,541,810	3,597,998
Investment Income	31,043	76,791
Total	3,572,853	3,674,789
Increase in Net Assets	70,828	(1,018)
Net assets - Beginning of year	16,024,963	16,025,981
Net assets - End of year	$ 16,095,791	$ 16,024,963

Net Tuition and Fees represent gross student fee revenue of $4,436,493 in FY 02 and $3,638,218 in FY 01 net of scholarship allowances of $1,221,539 and $1,126,694 for those years respectively.

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

Operating Expenses increases reflect the addition of depreciation and increases in salaries and benefits.

State Subsidy declined despite the College's significant increase in enrollment. The trend of declining funding per annual full-time equivalent began in 1998. In FY 97 State Subsidy represented 53% of Total General Fund Revenue. In FY 02 State Subsidy represented only 41% of Total General Fund Revenue.



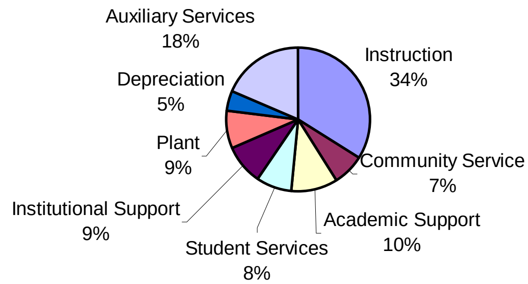
Operating Expenses by Functional Classification

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

	FY 2002	FY 2001	Change
Operating Expenses			
Instructional	$ 4,109,791	$ 3,902,938	5%
Research	643	132	387%
Community Service	879,450	1,443,617	-39%
Academic Support	1,224,115	987,232	24%
Student Services	979,983	918,258	7%
Institutional Support	1,066,020	969,892	10%
Plant Operations	750,529	985,272	-24%
Depreciation	539,377	539,635	0%
Scholarships	2,075,242	1,646,446	26%
Auxiliary	2,221,308	1,624,498	37%
Total Operating Expenses	$ 13,846,458	$ 13,017,920	6%

Operating Expenses by Functional Classification – continued

Total Operating Expenses by Function June 30, 2002

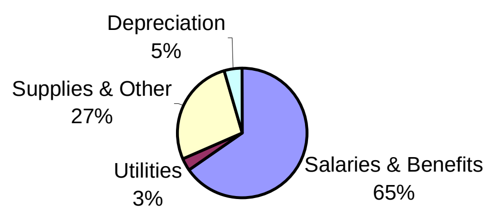


Operating Expenses by Natural Classification

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

Operating Expenses	FY 2002	FY 2001	Change
Salaries:			
Faculty	$ 3,408,474	$ 3,197,953	7%
Exempt staff	1,623,260	1,613,834	1%
Nonexempt wages	1,100,713	1,049,399	5%
Benefits	1,715,875	1,451,584	18%
Scholarships	2,075,242	1,646,446	26%
Utilities	345,678	365,866	-6%
Supplies and other services	3,037,839	3,153,203	-4%
Depreciation	539,377	539,635	0%
Total Operating Expenses	$ 13,846,458	$ 13,017,920	6%

Total Operating Expenses by Natural Classification June 30, 2002



Statement of Cash Flows

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

Cash Provided By (Used In):			
Operating activities	$ (2,884,662)	$ (2,606,158)	11%
Non-capital financing activities	3,553,680	3,597,998	-1%
Capital and related financing activities	(284,673)	(791,574)	-64%
Investing Activities	31,043	76,791	-60%
Net Increase (decrease) in cash	415,388	277,057	50%
Cash - Beginning of year	1,395,565	1,118,508	
Cash - End of year	$ 1,810,953	$ 1,395,565	30%

The primary cash receipts from operating activities are from student fees.

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

Payments to employees are the primary use of funds.

Economic Factors That Will Effect The Future

Challenges

- Although the current operating costs of existing facilities are under control, the multi-campus structure of the College will continue to present challenges.
- There have been indications that the number of high school graduates within our service area may decline in the near future.
- The national and state economies create an uncertainty regarding state appropriations.
- Healthcare increases are at unprecedented levels.

Opportunities

- The recent creation and expansion of certain programming has been well received. A continued focus on development will help to maximize enrollments and community service.
- Strategic expansion and development of facilities could attract a broader group of both traditional and nontraditional students.

SOUTHERN STATE COMMUNITY COLLEGE

STATEMENT OF NET ASSETS
JUNE 30, 2002

	Primary Institution	Component Unit Foundation
ASSETS		
CURRENT ASSETS:		
CASH	$ 3,455	$ 77,142
CASH EQUIVALENTS	2,081,512	76,326
ACCOUNTS RECEIVABLE, NET	1,003,300	-
OTHER RECEIVABLES	28,879	-
PLEDGES RECEIVABLE, NET	-	16,508
INVENTORIES	111,627	-
PREPAIDS	5,951	-
TOTAL CURRENT ASSETS	3,234,724	169,976
NONCURRENT ASSETS:		
OTHER ASSETS	12,060	-
ENDOWMENT INVESTMENTS	-	117,826
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION (NOTE 5)	14,142,323	-
TOTAL NONCURRENT ASSETS	14,154,383	117,826
TOTAL ASSETS	**17,389,107**	**287,802**
LIABILITIES		
CURRENT LIABILITIES:		
ACCOUNTS PAYABLE	110,361	-
ACCRUED LIABILTIES	328,148	-
HELD IN CUSTODY FOR OTHERS	22,392	-
CAPITAL LEASE OBLIGATION, CURRENT PORTION	55,909	-
DEFERRED REVENUE	531,584	-
TOTAL CURRENT LIABILITIES	1,048,394	-
NONCURRENT LIABILITIES:		
CAPITAL LEASE OBLIGATION, LONG-TERM PORTION	67,041	-
COMPENSATED ABSENCES	177,881	-
TOTAL NONCURRENT LIABILITIES	244,922	-
TOTAL LIABILITIES	**1,293,316**	**-**
NET ASSETS		
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	14,044,632	-
RESTRICTED FOR:		
NONEXPENDABLE:		
SCHOLARSHIPS AND FELLOWSHIPS	12,318	117,826
EXPENDABLE:		
LOANS	17,696	-
SCHOLARSHIPS AND FELLOWSHIPS	-	20,409
OTHER	634,791	-
UNRESTRICTED	1,386,354	149,567
TOTAL NET ASSETS	**$ 16,095,791**	**$ 287,802**

The accompanying notes are an integral part of these financial statements.

SOUTHERN STATE COMMUNITY COLLEGE

STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2002

	Primary Institution	Component Unit Foundation
REVENUES		
OPERATING REVENUES:		
STUDENT TUITION AND FEES (Net of Scholarship Allowance of $1,221,539)	$ 3,214,954	-
FEDERAL GRANTS AND CONTRACTS	2,351,633	-
STATE AND LOCAL GRANTS AND CONTRACTS	2,203,441	-
NONGOVERNMENTAL GRANTS AND CONTRACT	171,512	-
AUXILIARY SERVICES:		-
BOOKSTORE	2,335,738	-
OTHER OPERATING REVENUE	67,155	89,838
TOTAL OPERATING REVENUES	**10,344,433**	**89,838**
EXPENSES		
OPERATING EXPENSES:		
INSTRUCTIONAL	4,109,791	-
RESEARCH	643	-
COMMUNITY SERVICE	879,450	-
ACADEMIC SUPPORT	1,224,115	-
STUDENT SERVICES	979,983	-
INSTITUTIONAL SUPPORT	1,066,020	-
PLANT OPERATIONS	750,529	-
DEPRECIATION	539,377	-
SCHOLARSHIPS	2,075,242	56,346
AUXILIARY ACTIVITIES	2,221,308	-
TOTAL OPERATING EXPENSES	**13,846,458**	**56,346**
OPERATING INCOME (LOSS)	**(3,502,025)**	**33,492**
NONOPERATING REVENUES (EXPENSES)		
STATE APPROPRIATIONS	3,529,447	-
INVESTMENT INCOME (NET OF INVESTMENT EXPENSE)	31,043	(8,820)
OTHER NONOPERATING REVENUES (EXPENSES)	-	-
NONOPERATING REVENUES	**3,560,490**	**(8,820)**
INCOME BEFORE OTHER REVENUES, EXPENSE, GAINS OR LOSSES	**58,465**	**24,672**
CAPITAL APPROPRIATIONS	12,363	-
ADDITIONS TO PERMANENT ENDOWMENTS	-	15,252
INCREASE IN NET ASSETS	**70,828**	**39,924**
NET ASSETS		
BEGINNING OF YEAR (Restated - Note 12)	**16,024,963**	**247,878**
END OF YEAR	**$ 16,095,791**	**$ 287,802**

The accompanying notes are an integral part of these financial statements.

SOUTHERN STATE COMMUNITY COLLEGE

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002

	Primary Institution	Component Unit Foundation
CASH FLOWS FROM OPERATING ACTIVITIES		
TUITION AND FEES	$ 3,172,771	-
RESEARCH GRANTS AND CONTRACTS	5,140,316	-
PRIVATE GIFTS	-	97,480
PAYMENTS TO SUPPLIERS	(3,209,143)	-
PAYMENTS FOR UTILITIES	(345,678)	-
PAYMENTS TO EMPLOYEES	(6,267,541)	-
PAYMENTS FOR BENEFITS	(1,715,875)	-
PAYMENTS FOR SCHOLARSHIP	(2,075,242)	(56,346)
LOANS ISSUED TO STUDENTS AND EMPLOYEES	9,505	-
AUXILIARY ENTERPRISE CHARGES:		
BOOKSTORES	2,330,216	-
OTHER RECEIPTS	76,009	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVIITIES	**(2,884,662)**	**41,134**
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
STATE APPROPRIATIONS	3,529,447	-
PRIVATE GIFTS FOR ENDOWMENT PURPOSES	-	15,252
GIFTS AND GRANTS RECEIVED FOR OTHER THAN CAPITAL PURPOSES	24,233	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	**3,553,680**	**15,252**
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
CAPITAL APPROPRIATIONS	12,363	-
PRINCIPAL PAID ON DEBT	(54,190)	
INTEREST PAID ON DEBT	(14,430)	
PROCEEDS FROM NEW DEBT	21,285	
PURCHASES OF CAPITAL ASSETS	(249,701)	-
NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES	**(284,673)**	**-**
CASH FLOWS FROM INVESTING ACTIVITIES		
PROCEEDS FROM SALES AND MATURITIES OF INVESTMENTS	-	19,104
INTEREST ON INVESTMENTS	31,043	1,652
PURCHASE OF INVESTMENTS	-	-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	**31,043**	**20,756**
NET INCREASE IN CASH	**415,388**	**77,142**
CASH-BEGINNING OF YEAR	**1,395,565**	**-**
CASH-END OF YEAR	**$ 1,810,953**	**$ 77,142**
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
OPERATING INCOME	(3,804,433)	33,492
ADJUSTMENTS TO RECONCILE NET INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
DEPRECIATION EXPENSE	539,377	-
CHANGES IN ASSETS AND LIABILITIES:		
RECEIVABLES, NET	(90,234)	7,642
INVENTORIES	(9,399)	-
OTHER ASSETS	90,565	-
ACCOUNTS PAYABLE & ACCRUED LIABILITIES	(85,156)	-
DEFERRED REVENUE	427,523	-
DEPOSITS HELD FOR OTHERS	8,854	-
COMPENSATED ABSENCES	38,241	-
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	**$ (2,884,662)**	**$ 41,134**

The accompanying notes are an integral part of these financial statements.

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

Southern State Community College (the College) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio and is considered to be a component unit of the State of Ohio. The financial statements present the financial position and results of operations of the College along with the Southern State Community College Foundation, as a component unit of the College. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, the College's financial statements are included as a discrete entity in the State of Ohio's Consolidated Annual Financial Report.

On March 12, 1974, the County Commissioners of Adams, Brown, Clinton, Highland, and Fayette Counties unanimously approved, by resolution, a joint proposal for the creation of a state general and technical college within the territory of these counties, pursuant to Ohio Revised Code (ORC) Section 3358.02(B). Pursuant to these actions, the Ohio Board of Regents created Southern State General and Technical College on April 19, 1974. A nine member Board of Trustees was appointed by the Governor of Ohio on May 21, 1974, pursuant to ORC Section 3358.04. The Community College was chartered on February 21, 1975. On October 21, 1977, the name of the College was officially changed from Southern State General and Technical College to Southern State Community College.

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

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

Basis of Presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No.34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* and Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis of Public Colleges and Universities,* issued in June and November 1999. While these Statements are scheduled for a phased implementation according to the size of the governmental unit, the College is required to adopt the Statement in the same year that the State of Ohio adopts it, and the State of Ohio has elected adoption for the year ended June 30, 2002. The College reports as a special purpose government engaged solely in "business type activities" under GASB Statement No. 34.

Note 1 - <u>Summary of Significant Accounting Policies</u> (Continued)

Basis of Accounting

The financial statements of the College have been prepared on the accrual basis whereby all revenues are recorded when earned and all expenses are recorded when they are considered to be a legal or contractual obligation to pay.

Investments

The College makes investments in accordance with the Board of Trustees' policy, which conforms with the authority granted in the Ohio Revised Code. The purchase of specific investment instruments is at the discretion of the College's Treasurer within these policy guidelines. As of June 30, 2002, investments held by the College were valued at $2,801,512. In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments are reported at fair value.

Accounts Receivables

At June 30, 2002, accounts receivable consist primarily of student tuition and fees, and intergovernmental grants and contracts. Student accounts receivable are reported net of an allowance for doubtful accounts of $317,629 at June 30, 2002, whereas other receivables are reported at net, based on separate allowances for doubtful accounts estimated by management.

Inventory

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

Capital Assets

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

Deferred Income

Deferred revenue is primarily comprised of receipts relating to tuition and student fees in advance of the services to be provided as of June 30, 2002.

Note 1 - Summary of Significant Accounting Policies (Continued)

Operating Revenues

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

Scholarship and Allowances and Student Aid

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

Pensions

The provision for pension costs is recorded when the related payroll is accrued and the obligation is incurred.

Management Estimates

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

Federal Financial Assistance Programs

The College participates in federally funded Pell Grants, SEOG Grants, and Federal Direct Lending programs. Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the U.S. Office of Management and Budget Revised Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and the Compliance Supplement.

During fiscal year 2002, the College distributed $2,144,889 for direct lending through the U.S. Department of Education, which is not included as revenues and expenditures on the accompanying financial statements.

Net Assets

GASB Statement No. 34 reports equity as "Net Assets" rather than "fund balance." Net assets are classified according to external donor restrictions or availability of assets for satisfaction of College obligations. Nonexpendable restricted net assets are gifts that have been received for endowment purposes, the corpus of which cannot be expended. Expendable restricted net assets represent funds that have been gifted for specific purposes.

Note 2 - Cash, Cash Equivalents and Investments

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

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

At June 30, 2002, the carrying amount of the College's cash deposits was $80,597 and the bank balances was $305,369. The differences represent normal reconciling items associated with timing differences and cash on hand. At June 30, 2002, $100,000 of the bank balances was insured by the FDIC (Category 1); the remaining bank balances were Category 3.

The following summarizes the carrying value and market value of investments:

Description	Cost	Carrying Value	Market Value
College - Star Ohio	$2,081,512	2,081,512	$2,081,512
Foundation - Money Market Funds	210,679	194,152	194,152
Total Investments	$2,292,191	2,275,664	$2,275,664

Note 2 - Cash, Cash Equivalents and Investments (Continued)

The College held $2,081,512 in Star Ohio investments. The Star Ohio investment account is an external investment pool and is considered a cash equivalent under GASB Statement No. 9. Oversight of the pool is through the Treasurer of State. The fair value of the College's position in the pool is the same as the value of its pool share. Such investments are not required to be categorized in accordance with Governmental Accounting Standards Board Statement No. 3. Other investments are Category 1.

Note 3 - Capital Assets

Capital asset activity for the year ended June 30, 2002 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Land	$ 767,441	-	-	$ 767,441
Total nondepreciable capital assets	767,441	-	-	767,441
Buildings	17,978,226	174,043	-	18,152,269
Equipment	534,722	60,500	-	595,222
Library books	369,575	15,158	-	384,733
Vehicles	105,049	-	-	105,049
Depreciable artwork	47,500	-	-	47,500
Total depreciable capital assets	19,035,072	249,701	-	19,284,773
Total cost of capital assets	19,802,513	249,701	-	20,052,214
Less accumulated depreciation				
Buildings	4,621,769	454,836	-	5,076,605
Equipment	303,569	63,749	-	367,318
Library books	348,089	3,130	-	351,219
Vehicles	49,587	17,662	-	67,249
Depreciable artwork	47,500	-	-	47,500
Total accumulated depreciation	5,370,514	539,377	-	5,909,891
Net capital assets	$ 14,431,999			$ 14,142,323

The following estimated useful lives are used to compute depreciation:

Buildings	20 - 40 years
Library books	7 years
Equipment	5 - 15 years

Note 4 - State Support

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

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

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

Note 5 - Capital Leases

The College is obligated under certain leases accounted for as capital leases. The leased assets have a carrying value of approximately $272,806. The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of June 30, 2002.

Years Ended June 30,	Amount
2003	$67,645
2004	37,868
2005	19,188
2006	6,473
2007	3,816
Total minimum lease payments	134,990
Less: Amount representing interest	(12,040)
Present value of minimum lease payments	$122,950

Note 6 - Long-Term Liabilities

Long-term liabilities of the College consist of capital lease obligations and accrued compensated absences. Long-term liability activity for the year ended June 30, 2002, was as follows:

		Beginning Balance	Additions	Reductions		Ending Balance		Amounts Due Within One Year
Capital Lease Obligations	$	155,855	21,285	54,190	$	122,950	$	55,909
Compensated Absences		139,640	38,241	-		177,881		-
Total Long-term Liabilities	$	295,495	59,526	54,190		300,831	$	55,909
Amount Due Within One Year						55,909		
Total Long-Term Liabilities					$	244,922		

The College paid $14,430 in interest expense during the year ended June 30, 2002.

Note 7 - Retirement Plans

The College's faculty is covered by State Teachers Retirement System of Ohio (STRS). Substantially all other employees are covered by the Public Employees Retirement System of Ohio (PERS). These retirement programs are statewide cost-sharing multiple employer defined benefit pension plans. They provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute. STRS and PERS issue separate, publicly-available financial reports that include financial statements and required supplementary information. The STRS or PERS financial reports may be obtained by writing or calling:

STRS	PERS
State Teacher's Retirement System of Ohio 275 East Broad Street Columbus, OH 43215-3371 (614) 227-4090 or (888) 227-7877	Public Employees Retirement System of Ohio 277 East Town Street Columbus, OH 43215-4642 (614) 466-2085 or (800) 222-7377

Funding Policy

The Revised Code of Ohio (ORC) provides PERS and STRS statutory authority for employee and employer contributions. The required contribution rates for PERS plan members and employers for calendar year 2001 were 8.5% and 13.31% of covered payroll, respectively. For STRS, the required, actuarially determined, rates for plan members are 9.30% and 14.00% of covered payroll, respectively.

The College's contributions, which represent 100% of the required contributions, for the year ended June 30, 2002, and for each of the two preceding years were as follows:

Note 7 - Retirement Plans (Continued)

Years Ended June 30,	STRS Annual Required Contributions	PERS Annual Required Contributions
2002	$535,213	$252,099
2001	528,223	186,133
2000	445,263	202,553

Trend information showing the progress of STRS and PERS in accumulating sufficient assets to pay benefits when due is presented in their annual financial reports. Copies of these reports may be obtained from STRS and PERS.

Note 8 - Postemployment Benefits Other Than Pensions

Public Employees Retirement System (PERS)
PERS provides post-retirement health care coverage to age and service retirants 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 Benefits (OPEB) as described in GASB Statement No. 12. "Disclosure of Information on Postemployment Benefits other than Pension Benefits by State and Local Government Employeers". A portion of each employer's contribution to PERS is set aside for funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2001 employer contribution rate for state employers was 13.31% of covered payroll; 4.30% was the portion that was used to fund health care for the year. The Ohio Revised Code provides statutory authority requiring public employers to fund postretirement health care through their contributions to PERS. The College's contribution actually made to fund postemployment benefits was $81,453. The following are the major assumptions:

Funding Method - An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB.
Assets Valuation Method - All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used.
Investment Return - The investment assumption rate for 2000 was 7.75%.
Active Employee Total Payroll - An annual increase of 4.75% compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual increases, over and above the 4.75% base increase, were assumed to range from 0.54% to 5.1%.

OPEB are advanced-funded on an actuarially determined basis. An entry age normal actuarial cost method 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.

Note 8 - Postemployment Benefits Other Than Pensions (Continued)

As of December 31, 2000, (the latest information available), the unaudited estimated net assets available for future OPEB payments were $11,735.9 million. The actuarially accrued liability and the unfunded actuarial liability, based on the actuarial cost method used, were $14,364.6 million and $2,628.7 million, respectively. The number of active participants was 411,076.

State Teachers Retirement System (STRS)

STRS provides access to health care benefits for retirees and their dependents. Coverage under the current program 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.

Pursuant to the Ohio Revised Code, STRS has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of monthly premiums. The Ohio Revised Code grants authority to STRS Ohio to provide health care coverage to benefit recipients, spouses and dependents. By Ohio law, the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which payments for health care benefits are paid. For the fiscal year ended June 30, 2001, the board allocated employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was $3.256 billion on June 30, 2001. For the year ended June 30, 2001, net health care costs paid by STRS were $300,772,000. There were 102,132 eligible benefit recipients.

Note 9 - Compensated Absence

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

The College accrues sick leave liability for those employees who are currently eligible to receive termination payments as well as other employees who are expected to become eligible to receive such payments. This liability is calculated using the "vesting method" which is set forth in Appendix C, Example 5 of GASB Statement No. 16, *Accounting for Compensated Abscences*. Under the vesting method, the College calculates the probability factor that employees will meet retention and eligibility requirements. The liability for the cost of vacation and sick leave benefits is approximately $177,881 as of June 30, 2002.

Note 10 - Risk Management

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

Note 11 - Operating Leases

The College is the lessor under a two-year operating lease with the Highland County Department of Health, which expires in June 2003. Future minimum rentals to be received under this lease as of June 30, 2002 in the aggregate are:

Years ended June 30,	Amount
2003	25,200
Total minimum future rentals	$25,200

NOTE 12 - Restatement of Beginning Net Assets

In connection with the implementation of GASB Statements No. 34 and No. 35, the following adjustments have been made to reflect the cumulative effect of this accounting change:

Recording of accumulated depreciation on capital assets	$ (5,370,514)
Capital assets written off due to implementation of capitalization policy	(6, 763,837)
Total adjustments	(12,134,351)
Fund balance as previously reported, June 30, 2001	28,159,314
Restated net assets as of July 1, 2001	$16,024,963

SOUTHERN STATE COMMUNITY COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002

FEDERAL GRANTOR: *Direct Recipient/Pass-Through Grantor:* Program Title	Federal CFDA Number	Pass-through State Grant Number	Award Fiscal Year	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION:				
Direct Recipient:				
Federal Supplemental Education Opportunity Grant	84.007	N/A	2002	$ 102,687
Federal Work-Study Program	84.033	N/A	2002	57,984
Federal Pell Grant Program	84.063	N/A	2002	2,165,703
Federal Pell Grant Program	84.063	N/A	2001	22,242
Federal Pell Grant Program Adm. Allowance	84.063	N/A	2002	4,845
Federal Pell Grant Program Adm. Allowance	84.063	N/A	2001	740
Federal Pell Grant Program Adm. Allowance	84.063	N/A	2000	5
Subtotal Pell Grant Program				2,193,535
Federal Direct Loan Program	84.268	N/A	2001	(11,555)
Federal Direct Loan Program (Note 2)	84.268	N/A	2002	2,156,444
Subtotal Direct Loan Program				2,144,889
Subtotal Student Financial Assistance Cluster of Programs				4,499,095
Passed through the Ohio Department of Education:				
Adult Education State Grant Program	84.002	067694-AB-S1	2002	53,654
Adult Education State Grant Program	84.002	067694-AB-S1	2001	165,299
Adult Education State Grant Program	84.002	067694 AB-SL	2002	7,000
Adult Education State Grant Program	84.002	067694 AB-SL	2001	4,930
Subtotal Adult Education Grant Program				230,883
Childcare - Food Program	10.558	135426-21-FU	2002	18,131
Vocational Education Basic Grants to States	84.048	067694 20-C2	2002	10,597
Total Passed through the Ohio Department of Education				259,611
Total U.S. Department of Education				4,758,706
TOTAL EXPENDITURES OF FEDERAL AWARDS				**$4,758,706**

SOUTHERN STATE COMMUNITY COLLEGE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002

Note 1 **Significant Accounting Policies**

The accompanying schedule of federal awards expenditures is a summary of the activity of the College's federal award programs. The schedule has been prepared on the cash basis of accounting.

Note 2 **Direct Loan Program**

The amount included on the schedule of expenditures of federal awards represents new loans advanced during the fiscal year ended June 30, 2002. The College is a direct lender for these loan funds; however, they are not responsible for collecting these loans in future periods.

PARMS & COMPANY, LLC
CERTIFIED PUBLIC ACCOUNTANTS

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

Board of Trustees
Southern State Community College

We have audited the financial statements of Southern State Community College (the College) as of and for the year ended June 30, 2002, and have issued our report thereon dated October 10, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the College in a separate letter dated October 10, 2002.

This report is intended solely for the use of the audit committee, management, 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.

Parms & Company, LLC

October 10, 2002

PARMS & COMPANY, LLC
CERTIFIED PUBLIC ACCOUNTANTS

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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
Southern State Community College

Compliance

We have audited the compliance of Southern State Community College with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. Southern State Community 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 Southern State Community College's management. Our responsibility is to express an opinion on Southern State Community 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 Southern State Community 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 Southern State Community College's compliance with those requirements.

In our opinion, Southern State Community College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

Internal Control Over Compliance

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

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

This report is intended solely for the use of the audit committee, management, 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.

Parms & Company, LLC

October 10, 2002

SOUTHERN STATE COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002

Section I. Summary of Auditor's Results

A. *Financial Statements*:

1. Type of auditor's report issued: UNQUALIFIED

2. Internal control over financial reporting:
   a. Material weakness(es) identified? ___Yes _X_No

   k. Reportable condition(s) identified that are not considered to be material weakness(es)? ___Yes _X_No

3. Noncompliance material to financial statements noted? ___Yes _X_No

B. *Federal Awards:*

1. Internal control over major programs:
   a. Material weakness(es) identified? ___Yes _X_No

   b. Reportable condition(s) identified that are not considered to be material weakness(es)? ___Yes _X_No

2. Type of auditor's report issued on compliance for major programs: UNQUALIFIED

3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ___Yes _X_No

4. Identification of major programs by program name (CFDA Number(s)):

   C Student Financial Aid Cluster of Programs

5. Dollar threshold used to distinguish between Type A and Type B programs: $ 300,000

6. Auditee qualified as low-risk auditee? _X_Yes ___No

SOUTHERN STATE COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002
(continued)

Section II. Financial Statement Findings

No findings.

Section III. Federal Award Findings and Questioned Costs

No findings.

Section IV. Summary of Prior Audit Findings

The prior audit report contained no audit findings and no questioned costs.

STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

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SOUTHERN STATE COMMUNITY COLLEGE

HIGHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 5, 2002