

**Washington State Community
College**

Audited Financial Statements

June 30, 2005



**Auditor of State
Betty Montgomery**

Board of Trustees
Washington State Community College
710 Colegate Dr.
Marietta, OH 45750

We have reviewed the *Independent Auditor's Report* of the Washington State Community College, Washington County, prepared by Rea & 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 Washington State Community College is responsible for compliance with these laws and regulations.

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

BETTY MONTGOMERY
Auditor of State

November 22, 2005

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**WASHINGTON STATE COMMUNITY COLLEGE
MARIETTA, OHIO**

TABLE OF CONTENTS

<i>TITLE</i>	<i>PAGE</i>
2	
Independent Auditor’s Report	1-2
Management Discussion and Analysis	3-9
Basic Financial Statements:	
Statements of Net Assets	10
Statements of Revenues, Expenses and Changes in Net Assets	11
Statements of Cash Flows	12
Notes to the Financial Statements.....	13-28
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.....	29
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	30-31
Schedule of Expenditures of Federal Awards	32
Notes to the Schedule of Expenditures of Federal Awards.....	33
Schedule of Findings and Questioned Costs	34-35
Corrective Action Plan.....	36
Appointed Officials	37
Administrative Personnel	38

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

September 30, 2005

Board of Trustees
Washington State Community College
Washington County
710 Colegate Drive
Marietta, OH 45750

Independent Auditor's Report

We have audited the accompanying financial statements of Washington State Community College (the College), a component unit of the State of Ohio, and the aggregate discretely presented component unit, as of and for the year ended June 30, 2005, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of the College, a component unit of the State of Ohio, and the aggregate discretely presented component unit as of June 30, 2004, were audited by other auditors whose report dated September 17, 2004, expressed an unqualified opinion on those statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2005, on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Trustees
Washington State Community College
September 30, 2005
Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U. S. Office of Management and Budget Circular A-133, Audit of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. 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.

Hea & Associates, Inc.

WASHINGTON STATE COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005 and 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Washington State Community College (the College) Management Discussion and Analysis (MD&A) of its financial condition provides an overview of the financial performance of the College for the year ended June 30, 2005. This discussion has been prepared by management and should be read in conjunction with the accompanying financial statements and notes.

Financial Highlights

The College's financial statements for FY 2004-2005 reported net assets of \$20.3 million at June 30, 2005. This represents a decrease of \$13,000 from the previous fiscal year, primarily a result of depreciation expense reported.

A 1.9% increase in enrollment from the previous year and a tuition increase of 5.8% at the start of the academic year resulted in a net tuition and fees increase of approximately \$445,000. State appropriations increased about 14% from the previous fiscal year, following three years of decline.

Using the Annual Report

This annual report consists of a series of financial statements, prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities* (GASB 35).

One of the most important questions asked about College finances is whether the College is better off as a result of the year's activities. One key to answering this question is the financial statements of the College. The Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows present financial information on the College, in a format similar to that used by corporations, and present a long-term view of the College's finances. The College's net assets (the difference between assets and liabilities) are one indicator of the College's financial health. Over time, increases or decreases in net assets are an indicator of the improvement or erosion of the College's financial health, when considered in conjunction with non-financial facts such as enrollment levels and conditions of facilities.

The Statement of Net Assets includes all assets and liabilities. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. GASB 35 requires state appropriations to be classified as nonoperating revenues. Accordingly, the College will generate a net operating loss prior to the addition of nonoperating revenues. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

Another important factor to consider when evaluating financial viability is the College's ability to meet financial obligations as they become due. The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital, financing and investing activities.

WASHINGTON STATE COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005 and 2004

Condensed Financial Information

Statement of Net Assets (in thousands)

ASSETS	2005	2004	2003
Current assets	4,871	4,195	3,929
Capital assets, net	17,816	18,413	17,615
Other non-current assets	112	112	107
Total assets	<u>22,799</u>	<u>22,720</u>	<u>22,720</u>
LIABILITIES			
Current liabilities	2,107	2,003	1,864
Non-current liabilities	356	367	273
Total liabilities	<u>2,463</u>	<u>2,370</u>	<u>2,137</u>
NET ASSETS			
Invested in capital assets, net of related debt	17,816	18,413	17,615
Restricted			
Nonexpendable	100	112	107
Expendable	501	494	494
Unrestricted	1,919	1,330	1,298
Total net assets	<u>20,336</u>	<u>20,349</u>	<u>19,514</u>

A review of the College's statement of net assets at June 30, 2005 shows that the College continues to build a strong financial foundation.

Assets As of June 30, 2005, the College's total assets amount to approximately \$22.8 million. Investment in capital assets, net of depreciation, represented the College's largest asset, totaling \$17.8 million or 78 percent of total assets. Accounts receivable, net of allowances for doubtful accounts, totaling \$2.3 million or 10 percent of total assets, were the College's next largest asset. Accounts receivable increased by approximately \$200 thousand, primarily a result of students delaying in making final payments for the fiscal year.

Liabilities At June 30, 2005, the College's liabilities totaled approximately \$2.4 million. Accounts payable, accrued liabilities, and deferred revenue represented \$2.0 million or 84 percent, of total liabilities.

Net Assets Net assets at June 30, 2005 totaled approximately \$20.3 million, or 89 percent, of total assets. Net assets invested in capital totaled \$17.8 million or 78 percent, of total net assets. Restricted and unrestricted net assets represented 2.9 percent and 9.4 percent of total net assets, respectively.

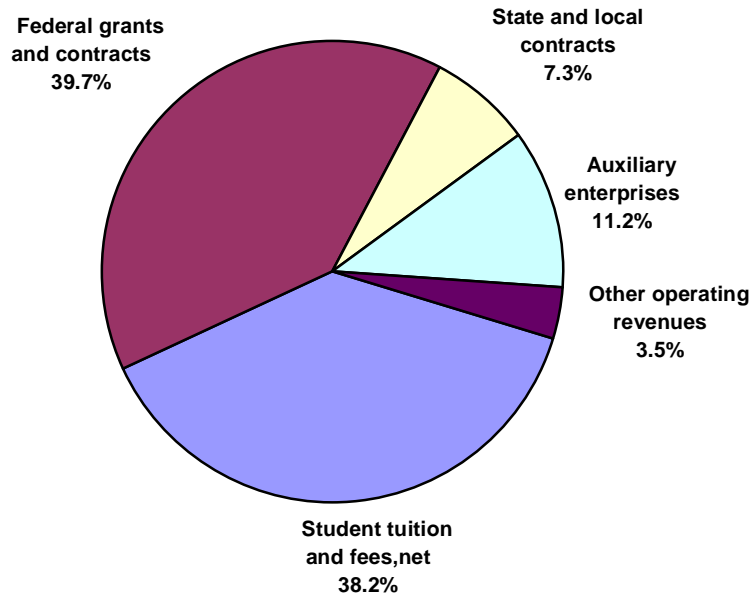
WASHINGTON STATE COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005 and 2004

Statement of Revenues, Expenses and Changes in Net Assets (in thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
OPERATING REVENUES			
Student tuition and fees, net	3,870	3,425	3,638
Grants and contracts	4,762	4,495	4,415
Auxiliary enterprises:	1,132	1,097	985
Other operating revenues	<u>357</u>	<u>1,877</u>	<u>1,912</u>
Total operating revenues	10,121	10,894	10,950
OPERATING EXPENSES			
Educational and General	13,450	13,403	14,339
Depreciation	722	673	661
Auxiliary enterprises	<u>1,349</u>	<u>1,396</u>	<u>1,162</u>
Total operating expenses	<u>15,521</u>	<u>15,472</u>	<u>16,162</u>
Operating income (loss)	(5,400)	(4,578)	(5,212)
NONOPERATING REVENUES (EXPENSES)			
State appropriations	5,291	4,623	4,639
Investment income	8	12	4
Other non-operating expenses	<u>44</u>	<u>30</u>	<u>81</u>
Net non-operating revenues	<u>5,343</u>	<u>4,665</u>	<u>4,724</u>
Income before other revenues, expenses, gains, or losses	<u>(57)</u>	<u>87</u>	<u>(488)</u>
Capital appropriations	44	748	1,309
Capital grants and gifts	<u>0</u>	<u>0</u>	<u>0</u>
Total other revenues	<u>44</u>	<u>748</u>	<u>1,309</u>
Increase in net assets	(13)	835	821
Net assets-beginning of year	<u>20,349</u>	<u>19,514</u>	<u>18,693</u>
Net assets-end of year	<u><u>20,336</u></u>	<u><u>20,349</u></u>	<u><u>19,514</u></u>

WASHINGTON STATE COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005 and 2004

OPERATING REVENUES



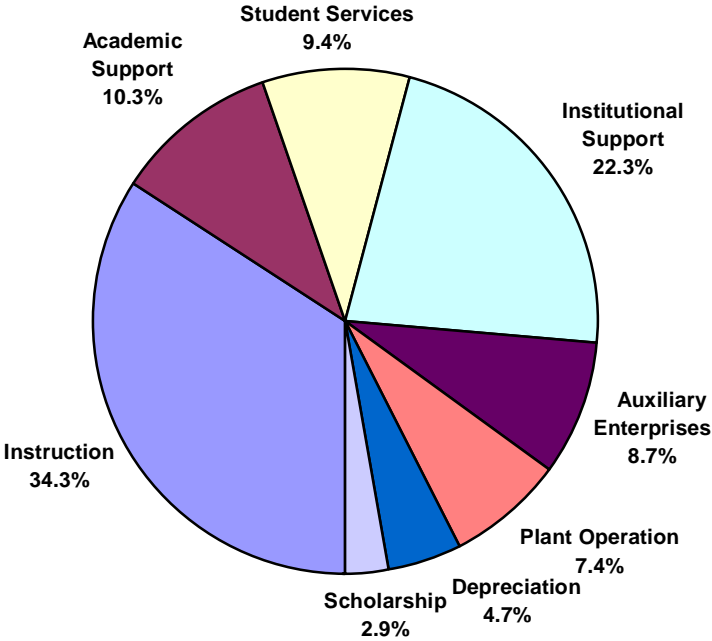
Total operating revenues were approximately \$10.2 million for the year ended June 30, 2005. The most significant sources of operating revenue for the College are federal grants and contracts (39.7 percent), net student tuition and fees (38.2 percent), and other auxiliary enterprises, which include the Bookstore and Child Development Center (11.2 percent).

Tuition and fees continued to be one of the largest sources of operating revenues for the College. Income from student tuition and fees increased slightly because of a 1.9 percent increase in full-time enrollment equivalent during the academic year.

There are other significant recurring sources of revenues essential to the operation of the College, including state appropriations and investment income, which are considered nonoperating revenues as defined by GASB 35. The College's state appropriations for the year ended June 30, 2005, amounted to \$5.3 million. This represents an increase of \$667 thousand from the College's appropriations for the prior year.

WASHINGTON STATE COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005 and 2004

OPERATING EXPENSES



Operating expenses, including \$722 thousand of depreciation, totaled approximately \$15.5 million. As depicted in the chart above, the majority of the College's operating funds are expended directly for the primary mission of the College – instruction (34.3 percent), institutional support (22.3 percent), and academic support (10.3 percent). One of the College's core values is to provide student's access to the College with the opportunity to succeed. The College's continued investment in student financial aid programs and student support services reflects this commitment.

For the year ended June 30, 2005, student financial aid related to tuition and fees totaled \$2.9 million, including student aid expenses of \$2.5 million and scholarship allowances of \$447 thousand. This represents a 2 percent increase in the approximately \$2.4 million expended for financial aid related to tuition and fees in the prior year.

WASHINGTON STATE COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005 and 2004

Statement of Cash Flows (in thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net cash provided (used) by:			
Operating activities	\$ (4,772)	\$ (3,132)	\$ (5,587)
Noncapital financing activities	5,335	4,713	4,691
Capital financing activities	(80)	(781)	(326)
Investing activities	7	7	0
Net increase in cash	<u>490</u>	<u>805</u>	<u>(1,222)</u>
Cash-beginning of year	<u>1,987</u>	<u>1,182</u>	<u>2,404</u>
Cash-end of year	<u>\$ 2,477</u>	<u>\$ 1,987</u>	<u>\$ 1,182</u>

Another way to assess the financial health of an institution is to look at the statement of cash flows. The primary purpose of the statement of cash flows is to provide information about the cash receipts and cash payments made by the College during the period. The statement of cash flows also helps financial statement readers assess:

- the College's ability to generate future net cash flows,
- the College's ability to meet obligations as they become due and
- the College's need for external financing.

Major sources of funds included in operating activities are student tuition and fees (\$3.0 million) and grants and contracts (\$4.6 million). The largest cash payments for operating activities were to employees, for wages and benefits, (\$11.1 million) and to suppliers (\$2.1 million).

The largest cash receipt in the noncapital financing activities group is the operating appropriation from the State of Ohio. Cash used by capital and related financing activities is primarily expended on the construction and acquisition of capital assets. Cash provided by investing activities reflects the investment return on investments.

Capital Assets

Capital assets, net of accumulated depreciation, totaled approximately \$17.8 million at June 30, 2005, a net decrease of \$598 thousand over the prior year-end due in part to depreciation expense.

FACTORS IMPACTING FUTURE PERIODS

The College continues to position for the future. There is a growing public recognition of the vital role the College plays in the economic future of the region. The College is committed to providing access to high quality, affordable education to all residents of the mid-Ohio valley.

Less than adequate support from the State prompted the College to increase tuition by 5.8% for academic year 04/05, and another 4.0% for 05/06. State support for the College increased only 2% for academic year 05/06 and the following year is expected to be comparable. The College is keenly aware that becoming more efficient and conservative in our approach to budgeting is imperative if we are to keep our tuition rate from becoming more of a barrier to our constituents. Our annual tuition and fees for a full-time student in academic year 05/06 is \$3,510, while the average for all Ohio two-year colleges is \$3,201.

WASHINGTON STATE COMMUNITY COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005 and 2004

The College has become more efficient. Increasing use of technology, non-fill of faculty and staff vacancies, reductions in the use of fee waivers for students and employees, and better controls over our use of utilities have allowed us to maintain a responsible rate of 1% growth in our institutional expenses from FY O3/O4 to FY O4/O5. A 6% increase in grants has allowed us to improve the revenue side of our operations.

The College has recently developed a statement of mission and values, which will serve as our "barometer" as we look to the future. Recognizing this effort and the objectives set forth within the statement, the Board of Trustees allocated \$300,000 from unrestricted fund balance to address specific needs in support of the College's mission and vision. The Vision Statement addresses areas such as student success, valuing people, stewardship, workforce development, and economic. These priorities have been identified by our faculty and staff, and the Board's allocation of funds to address them demonstrates support and recognition.

The College continues to promote and refine its Master Plan. Current construction includes the expansion of the engineering wing, allowing for growth in both the HVAC and Auto/Diesel instructional programs. Although the greatest need is now for an additional classroom building to house our expanding health programs, the College is promoting each of the Master Plan projects as integral to the future of our community.

Management will continue to be efficient and conservative. The increasing cost of utilities, health insurance, and other expenses will require a conscious effort by the entire organization to spend our limited resources wisely.

WASHINGTON STATE COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
JUNE 30, 2005 AND 2004

	2005		2004	
	Washington State Community College	Component Unit Washington State Foundation	Washington State Community College	Component Unit Washington State Foundation
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 2,477,391	\$ 197,435	\$ 1,987,095	\$ 62,194
Accounts receivable (net of allowance for doubtful accounts, \$39,392 in 2005 and 2004)	2,282,051		2,082,305	
Inventories	93,258		111,075	
Prepaid expenses	17,960		14,024	
Total current assets	4,870,660	197,435	4,194,499	62,194
Noncurrent Assets				
Investments	112,734		111,628	
Capital assets, net	17,815,937		18,413,444	
Total noncurrent assets	17,928,671	0	18,525,072	0
Total Assets	22,799,331	197,435	22,719,571	62,194
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	1,051,082	189	1,184,867	24,350
Deferred revenue	1,000,695		761,677	
Compensated absences - current portion	54,765		56,806	
Total current liabilities	2,106,542	189	2,003,350	24,350
Noncurrent Liabilities				
Deposits	388		0	
Deferred revenue	45,399		44,846	
Compensated absences	310,337		321,902	
Total noncurrent liabilities	356,124	0	366,748	0
Total liabilities	2,462,666	189	2,370,098	24,350
NET ASSETS				
Invested in capital assets, net of related debt	17,815,937		18,413,444	
Restricted for				
Nonexpendable				
Scholarship and fellowships	100,000		111,628	
Expendable				
Scholarship and fellowships	12,734	182,083	0	
Capital Projects	488,673		488,673	
Unrestricted	1,919,321	15,163	1,330,575	37,844
Total net assets	\$ 20,336,665	\$ 197,246	\$ 20,349,473	\$ 37,844

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

WASHINGTON STATE COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005		2004	
	Washington State Community College	Component Unit Community College Foundation	Washington State Community College	Component Unit Community College Foundation
REVENUES				
Operating Revenues				
Student tuition and fees (net of scholarship allowances of \$2,534,497 in 2005 and \$2,477,445 in 2004)	\$ 3,869,749		\$ 3,424,969	
Federal grants and contracts	4,019,279		3,939,055	
State and local grants and contracts	742,471		556,133	
Private Grants and Contracts	0	\$ 194,364	0	\$ 41,378
Sales and service of educational departments	193,364		153,813	
Auxiliary enterprises:				
Bookstore	817,333		846,587	
Child Development Center	314,956		250,080	
Other Operating Revenue	164,130		1,723,573	
Total operating revenue	<u>10,121,282</u>	<u>194,364</u>	<u>10,894,210</u>	<u>41,378</u>
EXPENSES				
Operating Expenses				
Educational and general				
Instructional and Departmental Research	5,318,799	20,836	5,291,371	2,471
Academic Support	1,604,004		1,685,794	
Student Services	1,464,727		1,441,208	
Institutional Support	3,468,383	9,500	3,385,783	24,350
Operation and Maintenance of plant	1,146,866		1,120,405	
Depreciation	721,758		672,630	
Scholarships and fellowships	446,874	5,100	479,074	
Auxiliary Services				
Bookstore	980,456		1,013,162	
Child Care Center	368,818		382,676	
Other Expenditures	700	0	0	0
Total operating expenses	<u>15,521,385</u>	<u>35,436</u>	<u>15,472,103</u>	<u>26,821</u>
Operating Income (loss)	<u>(5,400,103)</u>	<u>158,928</u>	<u>(4,577,893)</u>	<u>14,557</u>
NONOPERATING REVENUES (EXPENSES)				
State Appropriations (Subsidy)	5,290,685		4,622,575	
Gifts	44,679		30,787	
Investment Income	8,126	474	11,691	87
Net nonoperating revenues	<u>5,343,490</u>	<u>474</u>	<u>4,665,053</u>	<u>87</u>
Income before other revenues, expenses, gains, or loss	(56,613)	159,402	87,160	14,644
Capital appropriations	43,805		748,297	
Increase (decrease) in net assets	<u>(12,808)</u>	<u>159,402</u>	<u>835,457</u>	<u>14,644</u>
NET ASSETS				
Net assets - beginning of year	<u>20,349,473</u>	<u>37,844</u>	<u>19,514,016</u>	<u>23,200</u>
Net assets - end of year	<u>\$ 20,336,665</u>	<u>\$ 197,246</u>	<u>\$ 20,349,473</u>	<u>\$ 37,844</u>

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

**WASHINGTON STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**

	2005		2004	
	Washington State Community College	Component Unit Community College Foundation	Washington State Community College	Component Unit Community College Foundation
CASH FLOWS FROM OPERATING ACTIVITIES:				
Tuition and Fees	\$ 3,093,323		\$ 2,613,041	
Grants and contracts	4,637,661	\$ 149,367	5,017,517	\$ 41,378
Payments to suppliers and utilities	(2,019,759)		(1,319,332)	
Payments to employees and benefits	(11,100,109)		(10,643,490)	
Payments for scholarships and fellowships	(446,874)	(5,100)		
Auxiliary enterprises	832,209		855,944	
Other receipts	231,907	(9,500)	343,522	(2,471)
Net cash provided (used) by operating activities	<u>(4,771,642)</u>	<u>134,767</u>	<u>(3,132,798)</u>	<u>38,907</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
State Appropriations	5,290,685		4,622,575	
Gifts and grants for other than capital purposes	44,679		30,787	
Other activity	0		59,673	
Net cash provided by noncapital financing activities	<u>5,335,364</u>	<u>0</u>	<u>4,713,035</u>	<u>0</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:				
Capital Appropriations	43,805		748,297	
Purchases of capital assets	(124,251)		(1,530,623)	
Net cash used by capital financing activities	<u>(80,446)</u>	<u>0</u>	<u>(782,326)</u>	<u>0</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest on investments	7,020	474	7,371	87
Net cash provided by investing activities	<u>7,020</u>	<u>474</u>	<u>7,371</u>	<u>87</u>
NET INCREASE IN CASH:				
Cash and Cash Equivalents - beginning of year	490,296	135,241	805,282	38,994
	<u>1,987,095</u>	<u>62,194</u>	<u>1,181,813</u>	<u>23,200</u>
Cash and Cash Equivalents - end of year	<u>\$ 2,477,391</u>	<u>\$ 197,435</u>	<u>\$ 1,987,095</u>	<u>\$ 62,194</u>
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ (5,400,103)	\$ 158,928	\$ (4,577,893)	\$ 14,557
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	721,758		672,630	
Changes in assets and liabilities:				
Receivables, net	(199,745)		538,041	
Inventories	17,817		4,207	
Other assets	(3,936)		(2,832)	
Accounts payable	(133,785)	(24,161)	270,019	24,350
Deferred revenue	239,570		(96,019)	
Deposits held for others	388		(384)	
Compensated absences	(13,606)		59,433	
Net cash provided (used) by operating activities:	<u>\$ (4,771,642)</u>	<u>\$ 134,767</u>	<u>\$ (3,132,798)</u>	<u>\$ 38,907</u>

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

WASHINGTON STATE COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 1 – DESCRIPTION OF THE REPORTING ENTITY

The Washington State Community College (the College) was originally chartered on September 17, 1971, by the Ohio Board of Regents in accordance with Section 3357.02 of the Ohio Revised Code. In 1991, the College's charter was revised to conform to the provisions of Section 3358.02 of the Ohio Revised Code. Also, the College began operating as a state community college on this date and changed its name from Washington Technical College to Washington State Community College. The College operates under an appointed Board of Trustees. The College is a component unit of the State of Ohio. The College is fully accredited by the North Central Association of Colleges and Schools.

The Washington State Foundation (Foundation) is a legally separate, tax-exempt organization supporting the College. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the College in support of its programs. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests, are restricted to the activities of the College by donors. Based upon the provisions in *Governmental Accounting Standards Board (GASB) Statement No. 14 – Reporting Entity* and subsequent amendments in GASB Statement No. 39, the Foundation is considered a component unit of the College and is discretely presented in the College's financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Presentation

The accompanying 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).

GASB Statement No. 35, *Basic Financial Statements — and Management's Discussion and Analysis —for Public Colleges and Universities*, as amended by subsequent GASB Statements establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net assets categories:

- Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted:
Nonexpendable — Net assets subject to externally imposed stipulations that they be maintained permanently by the College. Such assets include the College's permanent endowment funds.

WASHINGTON STATE COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expendable — Net assets whose use by the College is subject to externally imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time.

- **Unrestricted:** Net assets whose use by the College is not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

The financial statement presentation required by GASB Statement No. 35 is intended to provide a comprehensive, entity-wide perspective of the College's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

b. Accrual Basis

The financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. The College reports as a Business Type Activity (BTA) as defined by GASB 35. BTAs are those activities that are financed in whole or part by fees charged to external parties for goods and services. The College also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements.

c. Cash and Cash Equivalents

This classification appears on the Statement of Net Assets and the Statement of Cash Flows and includes petty cash, cash on deposit with private bank accounts and savings accounts.

For purposes of the statement of cash flows and for presentation of 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 and cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

d. Capital Assets

Capital assets are stated at cost at date of acquisition or, in the case of gifts, at fair market value at date of gift. Equipment with a unit cost of \$3,000 or more and having an estimated useful life of greater than one year is capitalized. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

WASHINGTON STATE COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation of capital assets is computed on a straight-line basis over the estimated useful lives of the respective assets, generally 20 years for land improvements, 10—40 years buildings and fixed equipment, 15 years for library books and 4—10 years for equipment.

e. Inventories

Inventories are stated at cost (first-in, first-out, or average cost).

f. Investments

Investments are stated at fair value.

g. Deferred Revenue

Deferred revenue consists primarily of summer school fees. The College has deferred amounts received for tuition and fees prior to June 30, 2005 and 2004 but relate to the subsequent accounting period.

h. Accounts Receivable

Accounts receivable represents the balance of unpaid student tuition charges, federal and state grants receivable and miscellaneous receivables owed to the College.

i. Allowance for Doubtful Accounts

The allowance for doubtful accounts is determined by management based on the College's historical losses, specific student circumstances and general economic conditions. Periodically, management reviews accounts receivable and records an allowance for specific students based on current circumstances and charges off the receivable against the allowance when all attempts to collect the receivable have failed.

j. Restricted Asset Spending Policy

The College's policy is that restrictions on assets cannot be fulfilled by the expenditure of unrestricted funds for similar purposes. The determination on whether restricted or unrestricted funds are expended for a particular purpose is made on a case-by-case basis. Restricted funds remain restricted until spent for the intended purpose.

WASHINGTON STATE COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k. Operating Activities

The College defines operating activities, as reported on the statements of revenues, expenses, and changes in net assets, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for services and goods received. Nearly all of the College's expenses are from exchange transactions. Certain significant revenues relied upon for operations, such as state appropriations, gifts and investment income, are recorded as non-operating revenues, in accordance with GASB Statement No. 35.

l. Use of Estimates

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

m. Non-current Long-Term Liabilities

Non-current long-term liabilities include compensated absences that will not be paid within the next fiscal year.

n. Compensated Absences

The College has adopted GASB No. 16.

Vacation leave and other compensated absences with similar characteristics should be accrued as a liability as the benefits are earned by the employees if both of these conditions are met:

- a. The employee's right to receive compensation is attributable to services already rendered.
- b. It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

For vacation leave the College posts a liability for 100% of accumulated vacation time.

WASHINGTON STATE COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A liability sick leave and other compensated absences with similar characteristics (hereinafter referred to as “sick leave”) should be accrued using one of the following termination approaches:

- a. The sick leave liability generally would be an estimate based on governmental entity’s past experience of making termination payments for sick leave, adjusted for the effects of changes in its termination payment policy and other current factors. This approach is known as the termination payment method.
- b. The sick leave liability would be an accrual for those employees expected to become eligible in the near future based on assumptions concerning the probability that individual employees or classes or groups of employees will become eligible to receive termination benefits. This accumulation should be reduced to the maximum amount allowed as a termination benefit. This approach is known as the vesting method.

For sick leave liability, the College uses the vesting method. The College posts a liability for any employee with tens years of service in the retirement system. These accumulations are reduced to the maximum amount allowed as a termination payment.

o. Scholarship Allowances

Student tuition and fees revenue and certain other revenues from College charges are reported net of scholarship allowances in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship allowance is the difference between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students’ behalf. Student financial assistance grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or non-operating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship allowance discount.

p. Budgetary Process

Annually, the Business Office develops a balanced budget for the College based on projected expenditures from department directors and anticipated revenue, including tuition and fees and the subsidy from the Ohio Board of Regents. The board of trustees approves the budget.

q. Income Taxes

Income taxes have not been provided on the general operations of the College because, as a state institution, its income is exempt from Federal income taxes under Section 115 of the Internal Revenue Code.

WASHINGTON STATE COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 3 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

State statutes classify monies held by the College into three categories.

Active deposits are public deposits necessary to meet current demand on the treasury. Such monies must be maintained either as cash in the College treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits the Board of Trustees has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation or depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts including passbook accounts.

Protection of the College's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

WASHINGTON STATE COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 3 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

4. Bond and other obligations of the State of Ohio.
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the College, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. The College's deposit policy is to obtain collateral from the financial institution to cover deposits in excess of the FDIC insurance limits. As of June 30, 2005, \$2,649,282 of the College's bank balance of \$3,054,497 was exposed to custodial credit risk as follows:

Uninsured and uncollateralized	\$ 472,998
Uninsured and collateral held by pledging bank's trust department not in the College's name	<u>2,176,284</u>
Total	<u><u>\$ 2,649,282</u></u>

WASHINGTON STATE COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 3 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Investments

As of June 30, 2005, the College had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities			More Than 10 Years
		Less than One Year	1-5 Years	5-10 Years	
Merrill Lynch Ready Asset Fund	\$ 3,523	\$ 3,523	\$ 0	\$ 0	\$ 0
Corporate Bonds	4,473	0	0	0	4,473
Equity Funds	93,652	93,652	0	0	0
Fixed Income funds	11,064	0	11,064	0	0
Total	\$ 112,712	\$ 97,175	\$ 11,064	\$ 0	\$ 4,473

These investments were donated to the College for the Greacen Memorial Nursing Scholarship. The College does not have any other investments and therefore has no investment policy.

Credit Risk. Standard and Poor's has rated the Corporate Bonds and Equity Funds at three and four stars. The other investments are not rated.

NOTE 4 - NOTES, LOANS AND ACCOUNTS RECEIVABLE

Notes, loans and accounts receivable as of June 30, 2005 and 2004 are as follows:

	2005			2004		
	Gross Receivable	Allowance	Net Receivable	Gross Receivable	Allowance	Net Receivable
Students	\$ 969,015	\$ 39,392	\$ 929,623	\$ 798,676	\$ 39,392	\$ 759,284
Reimbursement receivable-grant and contracts	1,129,061	0	1,129,061	1,082,151	0	1,082,151
Other	223,367	0	223,367	240,870	0	240,870
Total	\$ 2,321,443	\$ 39,392	\$ 2,282,051	\$ 2,121,697	\$ 39,392	\$ 2,082,305

WASHINGTON STATE COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 5 - CAPITAL ASSETS, NET

Capital assets as of June 30, 2005 and 2004 are summarized as follows:

	2005			
	2004	Additions	Reductions	
Assets:				
Land	\$ 980,000	\$ 0	\$ 0	\$ 980,000
Buildings	19,815,051	0	0	19,815,051
Land improvements	2,905,512	51,407	0	2,956,919
Library books	403,602	4,603	0	408,205
Moveable equipemnt	3,030,114	68,241	0	3,098,355
	<u>27,134,279</u>	<u>124,251</u>	<u>0</u>	<u>27,258,530</u>
Accumulated Depreciation:				
Buildings	4,158,747	495,376	0	4,654,123
Land improvements	1,571,055	147,368	0	1,718,423
Libruary books	300,712	8,376	0	309,088
Moveable equipment	2,690,321	70,638	0	2,760,959
	<u>8,720,835</u>	<u>721,758</u>	<u>0</u>	<u>9,442,593</u>
Capital Assets, net	<u>\$ 18,413,444</u>	<u>\$ (597,507)</u>	<u>\$ 0</u>	<u>\$ 17,815,937</u>
2004				
	2003	Additions	Reductions	2004
Assets:				
Land	\$ 980,000	\$ 0	\$ 0	\$ 980,000
Buildings	18,436,776	1,378,275	0	19,815,051
Land improvements	2,887,115	18,397	0	2,905,512
Library books	397,466	6,136	0	403,602
Moveable equipemnt	2,961,972	127,815	(59,673)	3,149,460
	<u>25,663,329</u>	<u>1,530,623</u>	<u>(59,673)</u>	<u>27,253,625</u>
Accumulated Depreciation:				
Buildings	3,666,817	491,930	0	4,158,747
Land improvements	1,426,086	144,969	0	1,571,055
Libruary books	274,214	26,498	0	300,712
Moveable equipment	2,681,088	68,906	(59,673)	2,809,667
	<u>8,048,205</u>	<u>732,303</u>	<u>(59,673)</u>	<u>8,840,181</u>
Capital Assets, net	<u>\$ 17,615,124</u>	<u>\$ 798,320</u>	<u>\$ 0</u>	<u>\$ 18,413,444</u>

WASHINGTON STATE COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 6 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2005 and 2004 are as follows:

	2005	2004
Payable to vendors and contractors	\$ 86,529	\$ 82,779
Accrued expenses, primarily payroll and vacation leave	658,645	630,668
Employee withholdings and deposits payable to third parties	305,908	471,420
	\$ 1,051,082	\$ 1,184,867

NOTE 7 - LONG-TERM OBLIGATIONS

The changes in the College's long-term obligations during fiscal year 2005 and 2004 were as follows:

	2005				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Deferred revenue	\$ 806,523	\$ 1,191,643	\$ (952,073)	\$ 1,046,093	\$ 1,000,695
Compensated absences	378,708	49,405	(63,011)	365,102	54,765
Total long-term liabilities	<u>\$ 1,185,231</u>	<u>\$ 1,241,048</u>	<u>\$(1,015,084)</u>	<u>\$ 1,411,195</u>	<u>\$ 1,055,460</u>
	2004				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Deferred revenue	\$ 902,542	\$ 564,105	\$ (660,124)	\$ 806,523	\$ 761,677
Compensated absences	319,275	78,753	(19,320)	378,708	56,806
Total long-term liabilities	<u>\$ 1,221,817</u>	<u>\$ 642,858</u>	<u>\$ (679,444)</u>	<u>\$ 1,185,231</u>	<u>\$ 818,483</u>

WASHINGTON STATE COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 8 - PENSION PLANS AND ACCRUED COMPENSATED ABSENCES

The College participates in the State Teachers' Retirement System (STRS) and the School Employees' Retirement System (SERS) retirement plans for academic and nonacademic personnel.

a. School Employees' Retirement System

The College contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code.

SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members were required to contribute 10% of their annual covered salary and the College is required to contribute at an actuarially determined rate. The June 30, 2004 (date of most recent information available) rate was 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The College's contributions to SERS for the years ended June 30, 2005, 2004 and 2003 were \$355,400, \$371,464 and \$333,375, respectively, equal to the required contributions for each year.

b. State Teachers' Retirement System

The State Teachers Retirement System of Ohio (STRS) is a cost-sharing, multiple-employer public employee retirement system. STRS Ohio is a statewide retirement plan for certified teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution, or other agency wholly controlled, managed, and supported in whole, or in part, by the state or any political subdivision thereof.

WASHINGTON STATE COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 8 - PENSION PLANS AND ACCRUED COMPENSATED ABSENCES (Continued)

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 allocate all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC and Combined Plans are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. 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. Any member may retire who has (1) five years of service credit and attained age 60, (2) 25 years of service credit and attained age 55, or (3) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest years' salaries. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual-retirement allowance.

Eligible faculty of Ohio's public college and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

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

WASHINGTON STATE COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 8 - PENSION PLANS AND ACCRUED COMPENSATED ABSENCES (Continued)

Benefits are increased annually by the 3% of the original base amount for Defined Benefit Plan participants.

The plan offers access to health care coverage to eligible retirees who participated in the plan and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage of up to \$2,000 can be purchased by members in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

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

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2004 (date of most recent information available) 10% of covered payroll for members and 14% for employers. Employer contributions by the College were \$609,286, \$602,581, and \$590,238 for the years ended June 30, 2005, 2004 and 2003, respectively; 100% of required amounts have been paid for all years.

STRS issues a stand-alone financial report. That report may be obtained after January 1, 2005 by writing to STRS, 275 E. Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

c. Alternative Retirement Plan

The State of Ohio requires public institutions of higher education to offer an alternative retirement plan to participating in the State Teachers Retirement System. The alternative retirement plan shall be a defined-contribution plan, with the Ohio employer contribution rate of 5.76%. The College has implemented the alternative retirement plan. In fiscal years 2005, 2004 and 2003, the employer match was \$20,346, \$5,397, and \$7,657, respectively.

WASHINGTON STATE COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 9 - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

In addition to the pension benefits described in Note 6, the College provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers' Retirement System and to retired non-certified employees and their dependents through the School Employees' Retirement System.

The State Teachers Retirement System provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code (R.C.), the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

The R.C. grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll.

The board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal years ended June 30, 2004 and June 30, 2003, the board allocated employer contributions equal to 1.0% of covered payroll to the Health Care Stabilization Fund. For the College, this amount equaled \$43,520 during the 2005 fiscal year. The balance in the Health Care Stabilization Fund was \$3.1 billion at June 30, 2004 (the date of the most recent information available).

For the fiscal year ended June 30, 2004 (date of most recent information available), net health care costs paid by STRS Ohio were \$268,739,000. There were 111,853 eligible benefit recipients.

Revised Code gives SERS the discretionary authority to provide post-retirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

WASHINGTON STATE COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 9 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

After the allocation for basic benefits, the remainder of the employer’s 14% contribution is allocated to providing health care benefits. At June 30, 2004 (the date of the most recent information available) the healthcare allocation rate is 4.91%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member’s pay, pro-rated for partial service credit. For fiscal 2004 (the date of the most recent information available), the minimum pay was established as \$25,400. For the College, the amount to fund health care benefits, including surcharge, equaled \$165,297 during the 2005 fiscal year. The surcharge, added to the unallocated portion of the 14% employer-contribution rate, provides for maintenance of the asset target level for the health care fund.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the date of the most recent information available) were \$223,443,805 and the target level was approximately \$335.2 million. At June 30, 2004 (the date of the most recent information available), the Retirement System’s net assets available for payment of health care benefits was \$300.8 million.

The number of participants currently receiving health care benefits is approximately 62,000.

NOTE 10 - OPERATING EXPENSES BY NATURAL CLASSIFICATION

The College’s operating expenses by natural classification were as follows for the years ended June 30, 2005 and 2004 (amounts for utilities and supplies and other services were restated for 2004 due to errors in compilation):

	2005	(Restated) 2004
	<u>2005</u>	<u>2004</u>
Salaries and wages	\$ 7,522,681	\$ 7,067,140
Employee benefits	3,577,428	3,576,350
Utilities	240,713	248,280
Supplies and other services	3,011,930	3,428,629
Depreciation	721,758	672,630
Student scholarships and financial aid	446,875	479,074
	<u>\$ 15,521,385</u>	<u>\$ 15,472,103</u>

WASHINGTON STATE COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 11 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts, theft of, damage to, and destructions of assets, errors and omissions, injuries to employees and natural disasters. The College contracts with Utica National Insurance Group for property and general liability insurance, including boiler and machinery coverage. The College has not had a significant reduction in coverage from the prior year.

Vehicles are covered by Utica National Insurance Group and hold a \$250 deductible. Automobile liability coverage has a \$1,000,000 limit for collision and a \$1,000,000 limit for bodily injury. Settled claims have not exceeded any aforementioned commercial coverage in any of the past four years.

The College pays the State Worker's Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative cost.

The College provides life insurance, and accidental death and dismemberment insurance to its employees.

The College contracts with Medical Mutual of Ohio for hospitalization and CoreSource for dental insurance and Vision Service Plan for vision insurance. The College pays 90% of the total monthly premiums for dental and vision coverages and the employee pays for the remaining 10%. The College pays 82% of the total monthly premiums for hospitalization and major medical and the employees pay the remaining 18%. Premiums are paid from the same funds that pay the employees' salaries.

The College is involved from time to time in routine litigation. Management does not believe that the ultimate resolution of this litigation will be material to its financial condition or results of operations.

NOTE 12 - COMPONENT UNIT DISCLOSURE

During the years ended June 30, 2005 and 2004 the Foundation provided resources of \$35,436 and \$26,821 to or on behalf of the College for scholarships and other purposes.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

September 30, 2005

The Board of Trustees
Washington State Community College
Marietta, OH 45750

**Independent Auditor's
Report on Internal Control over Financial Reporting and Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

We have audited the basic financial statements of Washington State Community College, a component unit of the State of Ohio, and its discretely presented component unit, as of and for the year ended June 30, 2005, and have issued our report thereon dated September 30, 2005. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 Washington State Community College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic 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 caused by error or fraud in amounts that would be material in relation to the basic 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 that we have reported to management of Washington State Community College in a separate letter dated September 30, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Washington State Community College's basic 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 not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedules of findings and responses as item 2005-001.

We also noted certain immaterial instances of noncompliance that we have reported to management of the College in a separate letter dated September 30, 2005.

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

Rea & Associates, Inc.

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

September 30, 2005

The Board of Trustees
Washington State Community College
Marietta, OH 45750

**Independent Auditor's
Report on Compliance with Requirements Applicable to Each Major
Program and Internal Control Over Compliance in
Accordance with OMB Circular A-133**

Compliance

We have audited the compliance of Washington 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, 2005. Washington State Community College's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Washington State Community College's management. Our responsibility it to express an opinion on Washington State Community College's compliance based on our audit.

We conducted our audit of compliance with those requirements 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 Circulars 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 Washington 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 Washington State Community College's compliance with those requirements.

In our opinion, Washington 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, 2005.

Internal Control Over Compliance

The management of Washington 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 Washington 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 for the information of the Board of Trustees, management 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.

Rea & Associates, Inc.

WASHINGTON STATE COMMUNITY COLLEGE

SCHEDULE OF REVENUES AND EXPENDITURES OF FEDERAL AWARDS
For fiscal year ended June 30, 2005

	Federal CFDA Number	Pass through Entity Identifying Number	Revenues	Expenditures
<u>U.S. Department of Education</u>				
<i>Direct Awards</i>				
Student Financial Aid Cluster				
Federal Pell Grant	84.063		\$ 2,884,919	\$ 2,884,919
Federal Work Study	84.033		47,486	47,486
Federal Family Education Loan	84.032		2,921,688	2,921,688
			<hr/>	<hr/>
Total Student Financial Aid Cluster			5,854,093	5,854,093
TRIO Cluster				
Educational Talent Search	84.044		286,409	286,409
Student Support Services	84.042		256,695	256,695
Upward Bound	84.047		208,193	208,193
			<hr/>	<hr/>
Total TRIO Cluster			751,297	751,297
Child Care Access Means Parents in Schools	84.335		16,339	16,339
<i>Passed Through State Department of Education</i>				
Basic Grants to States				
Technical Preparation Education	84.243	06435 VETP PD2005	5,250	5,250
		06435 3ETC 2005	169,987	169,987
Total Technical Preparation Education			<hr/>	<hr/>
			175,237	175,237
Vocational Education - Basic Grants to States	84.048	064345-20C3-2005	74,267	74,359
			<hr/>	<hr/>
Total U.S. Department of Education			6,871,233	6,871,325
<u>U.S. Department of Health and Human Services</u>				
Scholarship for Disadvantaged Students (SDS)	93.925	5842818-04	47,973	47,973
<u>U.S. Small Business Administration</u>				
<i>Passed - Through Ohio University:</i>				
Small Business Development Center	59.037	22000130	50,069	50,069
<u>U.S. Department of Agriculture</u>				
<i>Passed through Ohio Department of Education</i>				
Food Service	10.558		16,186	17,534
			<hr/>	<hr/>
Total Federal Awards			<u>\$ 6,985,461</u>	<u>\$ 6,986,901</u>

The accompanying notes are an integral part of this statement.

WASHINGTON STATE COMMUNITY COLLEGE
NOTES TO THE SCHEDULE OF REVENUES AND EXPENDITURES OF FEDERAL
AWARDS
Year Ended June 30, 2005

NOTE 1 – BASIS OF PRESENTATION

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

NOTE 2 – OUTSTANDING LOANS

The College does not make Federal Family Education Loans (FFELs). The amount presented represents the value of new FFELs awarded during the fiscal year as follows:

Federal Stafford Loans	\$ 1,657,813
Federal Unsubsidized Stafford Loans	<u>1,263,875</u>
Total FFELs	<u><u>\$ 2,921,688</u></u>

WASHINGTON STATE COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133, SECTION .505
JUNE 30, 2005

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under Section .510?	No
(d)(1)(vii)	Major Programs (list):	Student Financial Assistance Cluster: CFDA #84.063, 84.033, 84.032
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: >\$300,000 Type B: All others
(d)(1)(ix)	Low Risk Auditee?	Yes

2. FINDINGS RELATING TO THE FINANCIAL STATEMENTS

Material Noncompliance

FINDING NUMBER	2005-001
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Ohio Rev. Code Section 135.18 states that the Treasurer shall require the institution designated as a public depository to pledge to and deposit with him, as security for the repayment of all public monies to be deposited in the depository during the period of designation pursuant to the award, eligible securities of aggregate market value equal to the excess of the amount of public monies which are insured by the federal deposit insurance corporation. The College did not have sufficient collateral to cover depository balances for one banking institution for the fiscal year 2005. The amount of uncollateralized deposits at June 30, 2005 was \$373,572.

We recommend the College obtain the necessary pledged collateral and in addition, obtain from the bank quarterly or semi-annually documentation of the types and amounts of collateral pledged to the College.

WASHINGTON STATE COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133, SECTION .505
JUNE 30, 2005
(Continued)

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None.

WASHINGTON STATE COMMUNITY COLLEGE

CORRECTIVE ACTION PLAN
OMB CIRCULAR A-133 § .315(c)
FOR THE YEAR ENDED JUNE 30, 2005

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2005-001	The College plans to request the necessary collateral and monitor the bank balance in relation to the collateral pledged.	10-31-05	Richard A. Peoples, Vice President & Treas.

**WASHINGTON STATE COMMUNITY COLLEGE
APPOINTED OFFICIALS
June 30, 2005**

Board of Trustees:

<u>Title/Name</u>	<u>Term of Office or Contract Period</u>	<u>Surety</u>	<u>Amount of Coverage</u>
Chairperson/ Mike Iaderosa	07/01/02-02/18/08	(A)	\$ 1,000,000
Vice-Chairperson/ Jean Glenn	02/19/02-02/18/08	(A)	1,000,000
<u>Members</u>			
Harry M. Cosgwell	02/19/03-02/18/09	(A)	1,000,000
John R. Hendricks	02/19/03-02/18/09	(A)	1,000,000
John F. Greacen, Jr.	02/19/05-02/18/11	(A)	1,000,000
Patricia S. Marvin	02/19/05-02/18/11	(A)	1,000,000
Wen-Yu Cheng	02/19/03-02/18/09	(A)	1,000,000
Clifford "Mike" Oliver	05/09/05-2/18/11	(A)	1,000,000

(A) Republic Franklin Insurance Company for the period July 1, 2004 through June 30, 2005.

**WASHINGTON STATE COMMUNITY COLLEGE
ADMINISTRATIVE PERSONNEL
June 30, 2005**

<u>Name and Address</u>	<u>Title</u>	<u>Surety</u>	<u>Amount of Coverage</u>
Dr. Charlotte R. Hatfield 710 Colegate Drive Marietta, OH 45750	President	(A)	\$ 1,000,000
Richard Peoples 710 Colegate Drive Marietta, OH 45750	Vice-President/Treasurer	(A)	1,000,000

(A) Republic Franklin Insurance Company for the period July 1, 2004 through June 30, 2005.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

WASHINGTON STATE COMMUNITY COLLEGE

WASHINGTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 6, 2005**