

SINCLAIR COMMUNITY COLLEGE
Dayton, Ohio

FINANCIAL STATEMENTS
June 30, 2004 and 2003



**Auditor of State
Betty Montgomery**

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

We have reviewed the Independent Auditor's Report of Sinclair Community College, Montgomery County, prepared by Crowe Chizek and Company LLC, for the audit period July 1, 2003 through June 30, 2004. 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. Sinclair Community College is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

December 13, 2004

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SINCLAIR COMMUNITY COLLEGE
Dayton, Ohio

FINANCIAL STATEMENTS
June 30, 2004 and 2003

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REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated statements of net assets of Sinclair Community College (the "College") as of June 30, 2004, and the related statements of revenues, expenses and changes in net assets and cash flows 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. The financial statements of the College as of June 30, 2003 were audited by other auditors whose report, dated October 7, 2003, expressed an unqualified opinion on those statements. We did not audit the financial statements of the Sinclair Community College Foundation, an entity included as required by *Statement No. 39 of the Governmental Accounting Standards Board*, as of December 31, 2003 and 2002 and for the years then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the reports of the other auditors.

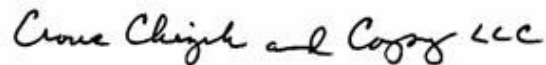
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, 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, based on our audit and the reports of the other auditors, the 2004 financial statements referred to above present fairly, in all material respects, the financial position of Sinclair Community College as of June 30, 2004 and Sinclair Community College Foundation (component unit whose year end is December 31), and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 23, 2004, 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 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.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Sinclair Community College taken as a whole. The accompanying Schedule of Expenditures of Federal Awards on pages 30 through 31, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for the purpose of additional analysis and is not a required part of the 2004 basic financial statements. The schedule is the responsibility of the College's management. Such additional information has been subjected to the auditing procedures applied in our audit of the 2004 basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Management's Discussion and Analysis (MD&A) on pages 3 through 10 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Crowe Chizek and Company LLC

Columbus, Ohio
September 23, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Sinclair Community College's (the "College's") financial performance provides an overview of the College's financial activities for the fiscal years ended June 30, 2004 and 2003. Please read it in conjunction with the College's financial statements, which begin on page 11.

Financial Highlights

In spite of a reduction in net assets, the College's financial position remained strong at June 30, 2004. Reported net assets declined \$12.9 million from the prior year to \$249.0 million. Total revenues declined by \$3.4 million or 2.7% while total expenses increased by \$7.5 million or 5.9%. For the 2004 fiscal year, College finances supported 2.4% enrollment growth and investment in key student services initiatives to improve student success and retention.

For fiscal year 2003, reported net assets declined \$2.0 million from the prior year to \$261.9 million. Total revenues grew by \$2.8 million or 2.3% while total expenses increased by \$9.2 million or 7.9%. College finances in fiscal 2003 supported 5% enrollment growth and expansion of student services, including establishment of a centralized call center to improve communications with students.

Overview of the Financial Statements

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

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

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

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

Collectively, the statements provide a complete picture of the College's financial condition as of June 30, 2004 and 2003, and the results of its operations for the fiscal years then ended.

Net Assets

In fiscal 2004, the College's total net assets decreased from \$261.9 million to \$249.0 million. This \$12.9 million reduction can be viewed as having three main components: 1) capital assets declined \$5.4 million due to depreciation expense exceeding the value of new capital additions, 2) the fair value of investments decreased \$3.9 million, and 3) exclusive of depreciation expense and the decrease in the fair value of investments, the aggregate result of all unrestricted revenue and expense activity, and the use of unrestricted net assets for capital asset acquisitions, was a reduction in the College's unrestricted net assets (allocated reserves) of \$3.6 million.

In fiscal 2003, the College's total net assets decreased from \$263.9 million to \$261.9 million. This \$2.0 million reduction can be viewed as having four main components: 1) capital assets declined \$2.2 million due to depreciation expense exceeding the value of new capital additions, 2) the fair value of investments increased \$1.2 million, 3) restricted grant funds decreased \$3.3 million, and 4) exclusive of depreciation expense and the increase in the fair value of investments, the aggregate result of all unrestricted revenue and expense activity, and the use of unrestricted net assets for capital asset acquisitions, was a reduction in the College's unrestricted net assets (allocated reserves) of \$0.7 million.

TABLE 1
NET ASSETS
(in millions of dollars)

	2004	2003	Percentage Change	
			2003-04	2002
Current assets	\$ 38.7	\$ 47.4	(18.4)%	\$ 61.0
Investments	114.2	113.4	0.7 %	102.4
Capital assets, net	<u>116.6</u>	<u>122.0</u>	(4.4)%	<u>124.2</u>
Total assets	269.5	282.8	(4.7)%	287.6
Current liabilities	16.6	17.2	(3.5)%	20.2
Long-term liabilities	<u>3.9</u>	<u>3.7</u>	5.4 %	<u>3.5</u>
Total liabilities	20.5	20.9	(1.9)%	23.7
Net assets:				
Invested in capital assets	116.6	122.0	(4.4)%	124.2
Restricted—expendable	1.8	1.8	0.0 %	2.1
Unrestricted	<u>130.6</u>	<u>138.1</u>	(5.4)%	<u>137.6</u>
Total net assets	<u>\$ 249.0</u>	<u>\$ 261.9</u>	(4.9)%	<u>\$ 263.9</u>

Revenues and Expenses

Fiscal year 2004 total revenues (operating, nonoperating and other) were \$120.9 million while total operating expenses, including depreciation, were \$133.8 million, thus yielding a \$12.9 million decrease in net assets. This compared to a \$2.0 million decrease in net assets in the prior year resulting from fiscal year 2003 total revenues of \$124.3 million less expenses of \$126.3 million. An analysis of significant changes is discussed below.

Operating Revenues:

Fiscal 2004 operating revenues increased \$1.2 million or 2.3%, primarily due to increases in student tuition and fees and federal Pell grants. These increases were partially offset by reductions in state, local and nongovernmental grants and contracts. Student tuition and fees increased \$1.7 million or 6.9%. However, student grants and scholarships increased by \$1.1 million, thus yielding a net increase of \$0.6 million or 3.4%. The increase in student tuition and fees is attributable to a 2.4% rise in credit enrollments coupled with a 6% increase in tuition. These increases were somewhat offset by a decrease in non-credit student fees due to lower enrollments in non-credit course offerings. The increase in student grants and scholarships resulted from additional Pell grants and institutionally funded student aid.

Fiscal 2003 operating revenues increased \$7.5 million or 17.1%. Of this amount, \$4.6 million resulted from additional federal, state and local grants and contracts. The majority of this revenue was attributable to federal Pell grants and State of Ohio Instructional grants, which are the College's two largest student financial aid sources. Also contributing to the increase was a \$2.1 million increase in net student tuition. This increase was due to a 5% increase in credit-hour enrollments and a 13% effective impact of tuition increases enacted at mid-year of fiscal 2002 and at the beginning of fiscal 2003. The tuition increases were necessary to offset cutbacks in state funding.

Operating Expenses:

Operating expenses in fiscal 2004 increased by \$7.5 million or 5.9%. On a cost per full-time equivalent (FTE) student basis, this translates into a 3.3% increase. A significant portion of this increase, across all categories, resulted from enrollment growth and inflationary changes, including increases in salaries and wages and in health care insurance premiums. In light of reductions in state appropriations during the past several years, the College continued measures to contain costs, including increasing the average class size.

In fiscal 2004, the Student Services category increased by \$1.0 million or 10%. A substantial portion of this increase resulted from the College's implementation of two key initiatives in fiscal 2004: (1) Student Individualized Learning Plans and (2) Academic Resource Centers. Both of these initiatives are designed to improve student success and retention. Plant Operations and Maintenance expenditures increased by \$2.2 million or 16.7% in fiscal 2004. This increase was primarily due to renewal and replacement spending for facilities and equipment.

In fiscal 2003, operating expenses increased by \$9.2 million or 7.9%. A significant portion of this increase, across all categories, resulted from 5% enrollment growth and inflationary changes, including increases in salaries and wages and in health care insurance premiums. Relative to specific categories, Public Services increased by \$1.5 million due to expenditures related to the Out-of-School Youth initiative. Also, Student Aid increased \$1.2 million as a result of enrollment growth and a general increase in financial aid programs

Nonoperating and Other Revenues:

Fiscal 2004 nonoperating and other revenues declined \$4.6 million, principally due to reductions in investment income and in the fair value of the College's investments. Investment income was \$1.3 million less in fiscal 2004 than in fiscal 2003. This, coupled with a \$3.9 million decrease in fiscal 2004 in the fair value of the investments compared to a \$1.2 million increase in fiscal 2003, resulted in a \$6.4 million decline in nonoperating and other revenues. This decline was partially offset by an increase in capital grants, primarily due to an increase in state equipment and capital funding, and modest increases in state appropriations and county levy receipts.

In fiscal 2003, nonoperating and other revenues declined \$4.7 million, principally due to a \$3.2 million reduction in capital grants as compared to fiscal 2002. The reduction in capital grants was due to special one-time funds received in the prior year for a major telecommunications infrastructure project.

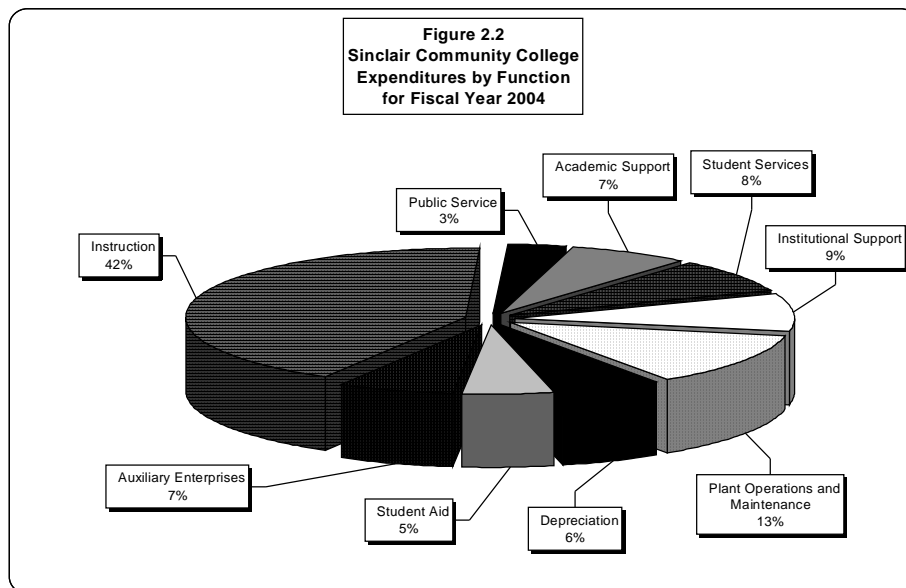
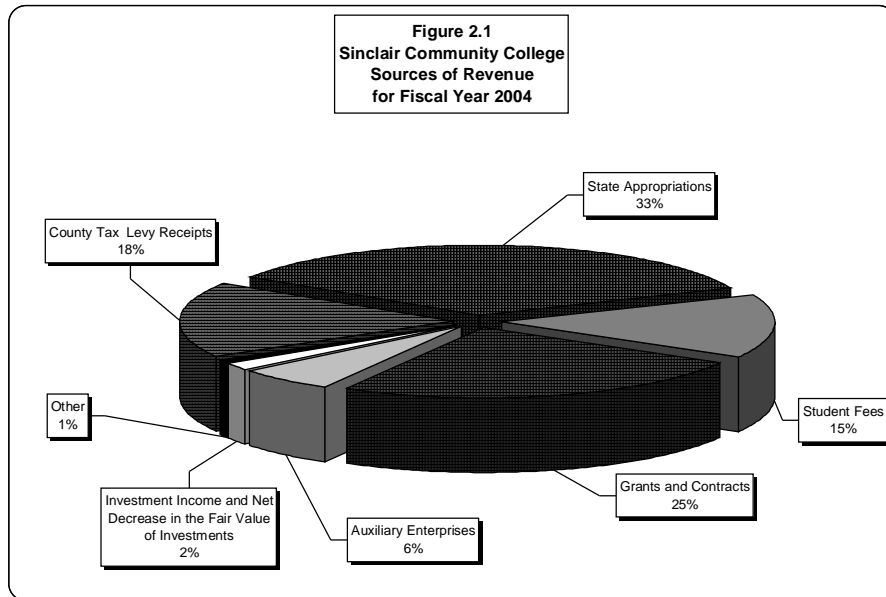
The fair value of the College's investments decreased \$3.9 million in fiscal 2004, following increases of \$1.2 million in fiscal 2003 and \$2.3 million in fiscal 2002. All changes were the result of normal market value fluctuations in the bond market. The decrease in fiscal 2004 reduced the net unrealized gain in the College's portfolio from \$4.7 million to \$800,000. The College's policy is to hold all of its investments to maturity; therefore, it is not anticipated that market value gains and losses will be realized.

Investment income declined by \$1.3 million in fiscal 2004 and \$5 million in fiscal 2003, due to the maturities of higher yielding bonds that were purchased years ago, and their replacement with the lower yielding bonds offered in the contemporary market.

State appropriations increased by \$0.9 million or 2.2% and \$0.3 million or 0.7% in fiscal 2004 and 2003, respectively. Due to continuing shortfalls in the State of Ohio budget, higher education and state agencies experienced another mid-year cut in fiscal 2004. For Sinclair, this resulted in a \$0.2 million reduction in Access Challenge funding. The current cycle of state cuts began in FY 2001. On a per student basis, FY 2004 state appropriations were 15.4% below FY 2001.

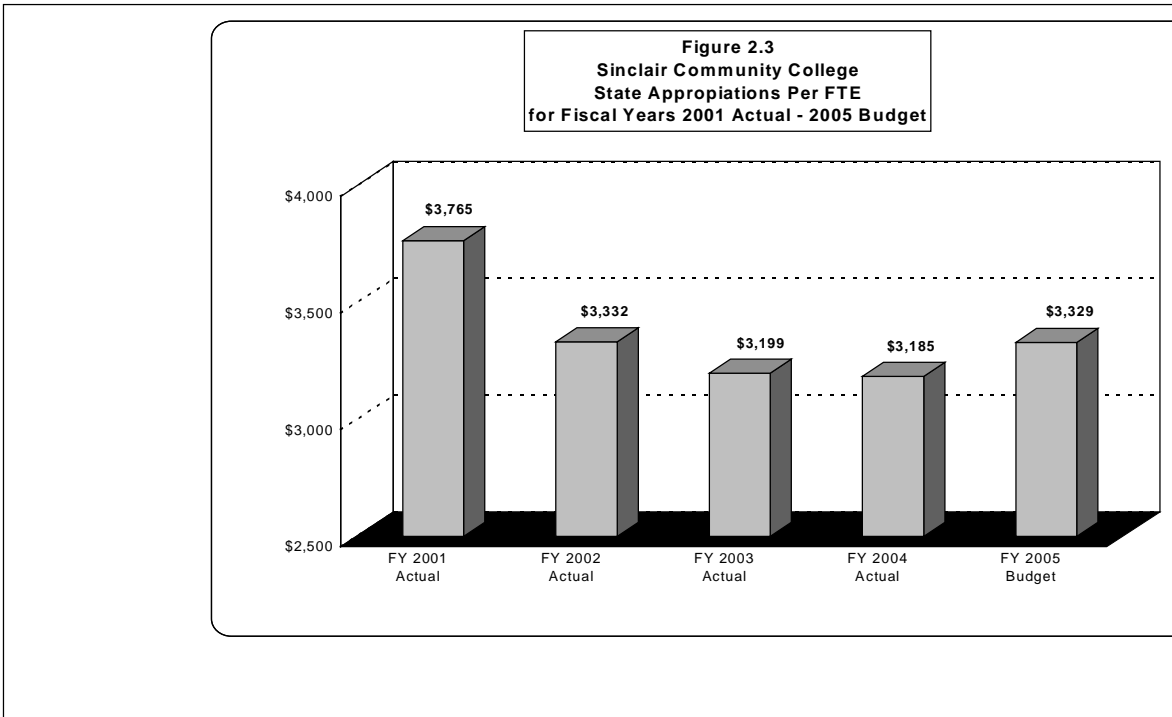
TABLE 2
REVENUES EXPENSES AND CHANGES IN NET ASSETS
(in millions of dollars)

	<u>2004</u>	<u>2003</u>	Percentage Change <u>2003-2004</u>	<u>2002</u>
Operating revenues:				
Student tuition and fees, net of grants and scholarships	\$ 18.0	\$ 17.4	3.4%	\$ 15.3
Federal grants and contracts	18.9	17.7	6.8%	3.8
State and local grants and contracts	5.3	5.8	(8.6)%	4.2
Nongovernmental grants and contracts	2.3	2.4	(4.2)%	2.9
Sales and services of educational departments	0.6	0.5	20.0%	0.4
Auxiliary enterprises, net of grants and scholarships	6.9	7.1	(2.8)%	6.9
Other	<u>0.5</u>	<u>0.4</u>	<u>25.0%</u>	<u>0.3</u>
Total operating revenues	52.5	51.3	2.3%	43.8
Operating expenses:				
Instruction	57.0	54.5	4.6%	51.0
Public service	4.5	4.7	(4.3)%	3.2
Academic support	9.0	8.5	5.9%	8.5
Student services	11.0	10.0	10.0%	10.1
Institutional support	11.8	11.0	7.3%	10.0
Plant operations and maintenance	16.8	14.4	16.7%	13.3
Depreciation	7.7	7.4	4.1%	7.1
Student aide	7.1	6.9	2.9%	5.7
Auxiliary enterprises	<u>8.9</u>	<u>8.9</u>	<u>0.0%</u>	<u>8.2</u>
Total operating expenses	133.8	126.3	5.9%	117.1
Nonoperating and other revenues:				
State appropriations	41.4	40.5	2.2%	40.2
County tax levy receipts	21.3	21.2	0.5%	21.4
Investment income	5.9	7.2	(18.1)%	7.7
Net (decrease) increase in the fair value of investments	(3.9)	1.2		6.1
Capital grants	<u>3.7</u>	<u>2.9</u>	<u>27.6%</u>	<u>6.1</u>
Total nonoperating and other revenues	<u>68.4</u>	<u>73.0</u>	<u>(6.3)%</u>	<u>77.7</u>
Increases (decrease) in net assets	<u>\$ (12.9)</u>	<u>\$ (2.0)</u>	<u>545.0%</u>	<u>\$ 4.4</u>



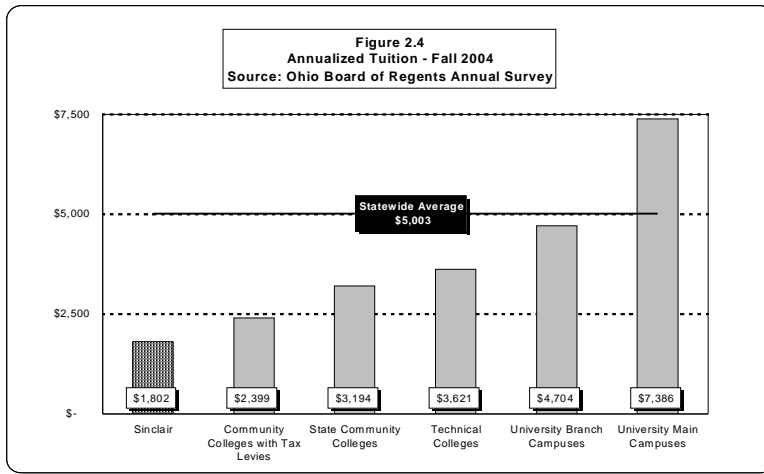
Economic Factors and Next Year's Budget

The most significant economic issue for Sinclair and other higher education institutions has been a prolonged downturn in the State of Ohio's economy and revenue collections, which has resulted in cutbacks in state appropriations for fiscal years 2001 through 2005. The College's fiscal 2005 budget anticipates some recovery in state funding. However, state appropriations per full-time equivalent (FTE) student have declined 11.6%, from fiscal year 2001 actual of \$3,765 to the latest fiscal year 2005 projection of \$3,329 (see Figure 2.3). This equates to a total reduction of \$5.9 million versus what would have been anticipated for fiscal year 2005 had per student state funding allocations remained at fiscal year 2001 levels and holding enrollment assumptions for fiscal year 2005 unchanged.



The prospects for improvement in state funding in the next biennial budget (FY's 2006 & 2007) are pessimistic at this time. The current state budget benefits from a temporary one-cent sales tax and other one-time funding sources that are likely to be unavailable for balancing the next budget.

Since state appropriations represent the largest revenue source for Sinclair, the College has had to implement a tuition increase effective summer quarter 2004 and has taken measures to further control costs. In spite of recent tuition increases, the College's tuition for Montgomery County residents of \$40.05 per credit hour is the lowest among all public State of Ohio colleges (see Figure 2.4).



For fiscal year 2005, the College is anticipating additional growth in student enrollments of approximately 3%. This will likely exert further cost pressures relative to maintaining adequate staffing, space and support services. Also continuing to cause concern are escalating increases in health care costs.

Capital Assets

Land value increased \$.4 million in fiscal 2004 and \$.2 million in fiscal 2003, primarily due to the acquisition of small properties near the campus. Additions to buildings and improvements of \$.1 million in fiscal 2004 and \$2.9 million in fiscal 2003 were offset by depreciation expense of \$5.0 million and \$4.9 million in the respective years. New additions to equipment inventory, the majority for classroom and laboratory use, totaled \$1.6 million in fiscal 2004 and \$1.8 million in fiscal 2003, but depreciation expense lowered the net equipment inventory by \$.8 million and \$.4 million in the respective years.

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

	2004	2003	Percentage Change 2003-2004	2002
Land and improvements	\$ 10.4	\$ 10.0	4.0 %	\$ 9.8
Buildings and improvements	97.3	102.2	(4.8)%	104.2
Equipment	7.5	8.3	(9.6)%	8.7
Library books	1.4	1.5	(6.7)%	1.5
	<u>\$ 116.6</u>	<u>\$ 122.0</u>	(4.4)%	<u>\$ 124.2</u>

SINCLAIR COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
Years ended June 30, 2004 and 2003

ASSETS	2004	2003
CURRENT ASSETS:		
Cash and cash equivalents	\$ 9,106,127	\$ 18,102,510
Accounts receivable, net	6,304,533	6,048,203
Prepaid expenses	561,530	687,440
Interest Receivable	555,472	557,150
Property tax levy receivable	21,071,397	21,054,345
Inventories	<u>1,112,675</u>	<u>975,974</u>
Total current assets	<u>38,711,734</u>	<u>47,425,622</u>
NONCURRENT ASSETS:		
Investments	114,217,345	113,376,728
Capital assets, net	<u>116,557,755</u>	<u>121,984,575</u>
Total noncurrent assets	<u>230,775,100</u>	<u>235,361,303</u>
Total assets	<u>\$ 269,486,834</u>	<u>\$ 282,786,925</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accruals	\$ 4,593,684	\$ 5,944,953
Accrued salaries, wages and benefits	9,087,119	8,339,417
Deferred student fee income	2,299,776	2,220,565
Deposits	<u>637,399</u>	<u>666,838</u>
Total current liabilities	16,617,978	17,171,773
NONCURRENT LIABILITIES:		
Accrued salaries, wages and benefits	<u>3,899,457</u>	<u>3,726,878</u>
Total liabilities	<u>20,517,435</u>	<u>20,898,651</u>
NET ASSETS:		
Invested in capital assets	116,557,755	121,984,575
Restricted - expendable	1,756,610	1,823,336
Unrestricted	<u>130,655,034</u>	<u>138,080,363</u>
Total net assets	<u>248,969,399</u>	<u>261,888,274</u>
Total liabilities and net assets	<u>\$ 269,486,834</u>	<u>\$ 282,786,925</u>

See accompanying notes to the consolidated financial statements.

SINCLAIR COMMUNITY COLLEGE FOUNDATION
STATEMENTS OF FINANCIAL POSITION
Years ended December 31, 2003 and 2002

ASSETS	2003	2002
Cash	\$ 423,872	\$ 464,632
Investments (Note K):		
Fixed income securities	5,064,575	4,927,074
Equities	11,774,320	9,061,259
Miami Valley Venture Funds	<u>112,044</u>	<u>123,296</u>
Total investments	<u>16,950,939</u>	<u>14,111,629</u>
Pledges receivable, net of allowances of \$0 and \$14,750 at December 31, 2003 and 2002, respectively (Note K)	<u>3,851,235</u>	<u>2,262,661</u>
Total assets	<u>\$ 21,226,046</u>	<u>\$ 16,838,922</u>
 LIABILITIES AND NET ASSETS		
Payable to Sinclair Community College	<u>\$ 275,652</u>	<u>\$ 111,966</u>
Net assets:		
Unrestricted	13,785,566	10,604,542
Temporarily restricted	3,379,054	3,175,291
Permanently restricted	<u>3,785,774</u>	<u>2,947,123</u>
Total net assets	<u>20,950,394</u>	<u>16,726,956</u>
Total liabilities and net assets	<u>\$ 21,226,046</u>	<u>\$ 16,838,922</u>

See accompanying notes to the consolidated financial statements.

SINCLAIR COMMUNITY COLLEGE
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 Years ended June 30, 2004 and 2003

REVENUES	2004	2003
Operating revenues:		
Student tuition and fees	\$ 27,133,316	\$ 25,388,488
Less Grants and scholarships	<u>(9,096,299)</u>	<u>(7,950,071)</u>
Student tuition and fees net of grants and scholarships	18,037,017	17,438,417
Federal grants and contracts	18,878,375	17,715,405
State and local grants and contracts	5,232,669	5,777,161
Nongovernmental grants and contracts	2,336,316	2,418,222
Sales and services of educational departments	557,841	523,561
Auxiliary enterprises		
Food service	263,675	243,519
Bookstore (net of grants and scholarships of \$2,751,442 and \$2,393,046 in 2004 and 2003, respectively)	6,133,005	6,221,730
Parking	546,080	579,043
Other operating revenues	<u>464,607</u>	<u>446,125</u>
Total operating revenues	<u>\$ 52,449,585</u>	<u>\$ 51,363,183</u>

(Continued)

SINCLAIR COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years ended June 30, 2004 and 2003

EXPENSES	2004	2003
Operating expenses:		
Educational and general:		
Instruction	\$ 56,950,275	\$ 54,453,453
Public service	4,502,920	4,692,198
Academic support	9,001,869	8,497,712
Student services	11,014,833	10,034,691
Institutional support	11,836,392	11,091,184
Plant operations and maintenance	16,788,038	14,444,692
Depreciation	7,678,731	7,410,458
Student aid	7,113,597	6,867,029
Auxiliary enterprises:		
Food service	158,889	171,988
Bookstore	8,137,097	7,818,144
Parking	<u>596,361</u>	<u>897,168</u>
Total operating expenses	<u>133,779,002</u>	<u>126,378,717</u>
Operating loss	<u>(81,329,417)</u>	<u>(75,015,534)</u>
Nonoperating revenues (expenses):		
State appropriations	41,357,680	40,546,443
County tax levy receipts	21,324,288	21,165,273
Investment income	5,897,670	7,195,380
Net increase (decrease) in the fair value of investments	<u>(3,865,022)</u>	<u>1,196,148</u>
Total nonoperating revenues	<u>64,714,616</u>	<u>70,103,244</u>
Income (loss) before other revenues, expenses, gains, or losses	(16,614,801)	(4,912,290)
Other revenues - capital grants	<u>3,695,926</u>	<u>2,869,587</u>
INCREASE (DECREASE) IN NET ASSETS	(12,918,875)	(2,042,703)
NET ASSETS:		
Beginning of year	<u>261,888,274</u>	<u>263,930,977</u>
End of year	<u>\$ 248,969,399</u>	<u>\$ 261,888,274</u>

See accompanying notes to the consolidated financial statements.

SINCLAIR COMMUNITY COLLEGE FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years ended December 31, 2003 and 2002

	2003			2002				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support:								
Contributions (Note K)	\$ 1,266,674	\$ 1,013,447	\$ 673,972	\$ 2,954,093	\$ 90,103	\$ 547,530	\$ 83,408	\$ 721,041
Interest/dividends, net of fund expenses of \$40,513 in 2003 and \$40,970 in 2002	(22,797)	2,242	(511)	(21,066)	(23,860)	6,030	--	(17,830)
Net assets released from restrictions	1,122,751	(1,122,751)	--	--	738,279	(738,279)	--	--
Net realized/unrealized gains (losses) on investment	2,505,304	310,825	165,190	2,981,319	(1,375,186)	(144,735)	--	(1,519,921)
Total revenue and support	4,871,932	203,763	838,651	5,914,346	(570,664)	(329,454)	83,408	(816,710)
Expenses:								
Scholarships	243,580	--	--	243,580	379,628	--	--	379,628
Project support	1,073,780	--	--	1,073,780	703,826	--	--	703,826
Operating expenses	373,548	--	--	373,548	170,892	--	--	170,892
Total expenses	1,690,908	--	--	1,690,908	1,254,346	--	--	1,254,346
Change in net assets	3,181,024	203,763	838,651	4,223,438	(1,825,010)	(329,454)	83,408	(2,071,056)
Net assets, beginning of year	10,604,542	3,175,291	2,947,123	16,726,956	12,429,552	3,504,745	2,863,715	18,798,012
Net assets, end of year	\$ 13,785,566	\$ 3,379,054	\$ 3,785,774	\$ 20,950,394	\$ 10,604,542	\$ 3,175,291	\$ 2,947,123	\$ 16,726,956

See accompanying notes to the consolidated financial statements.

SINCLAIR COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
Years ended June 30, 2004 and 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tuition and fees	\$ 18,857,779	\$ 17,168,201
Grants and contracts	25,651,186	27,485,637
Payments to vendors and employees	(126,388,275)	(117,685,621)
Auxiliary enterprise charges	7,086,827	7,107,560
Sales and services of educational departments	507,655	478,969
Other receipts	<u>384,324</u>	<u>147,990</u>
Net cash used in operating activities	<u>(73,900,504)</u>	<u>(65,297,264)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Direct student loans receipts	6,467,783	6,247,177
Direct student loan disbursements	(6,836,863)	(5,830,347)
Deposits	(29,439)	(2,108,452)
State appropriations	41,357,680	40,546,443
Property tax levy receipts	<u>21,307,236</u>	<u>21,297,432</u>
Net cash provided by non-capital financing activities	<u>62,266,397</u>	<u>60,152,253</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants	3,695,926	2,869,587
Purchases of capital assets	<u>(2,251,911)</u>	<u>(5,182,556)</u>
Net cash provided by (used in) capital and related financing activities	<u>1,444,015</u>	<u>(2,312,969)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of investments	49,863,228	45,462,768
Interest on investments	6,332,230	7,185,332
Purchase of investments	<u>(55,001,749)</u>	<u>(55,207,359)</u>
Net cash provided by (used in) investing activities	<u>1,193,709</u>	<u>(2,559,259)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(8,996,383)	(10,017,239)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>18,102,510</u>	<u>28,119,749</u>
End of year	<u>\$ 9,106,127</u>	<u>\$ 18,102,510</u>

See accompanying notes to consolidated financial statements.
(Continued)

SINCLAIR COMMUNITY COLLEGE
 STATEMENTS OF CASH FLOWS
 Years ended June 30, 2004 and 2003

RECONCILIATION OF OPERATING LOSS TO NET
 CASH USED IN OPERATING ACTIVITIES--

Operating loss	\$ (81,329,417)	\$ (75,015,534)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	7,678,731	7,410,458
Changes in net assets:		
Accounts receivable	1,023,736	1,493,144
Grants receivable	(910,986)	1,652,188
Inventory	(136,701)	(26,838)
Prepaid expenses	125,910	(388,508)
Accounts payable	(1,351,269)	651,583
Accrued salaries, wages and benefits	920,281	857,057
Deferred revenue	<u>79,211</u>	<u>(1,930,814)</u>
Net cash used by operating activities	<u>\$ (73,900,504)</u>	<u>\$ (65,297,264)</u>

See accompanying notes to consolidated financial statements.

SINCLAIR COMMUNITY COLLEGE FOUNDATION
STATEMENTS OF CASH FLOWS
Years ended December 31, 2003 and 2002

	2003	2002
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 4,223,438	\$(2,071,056)
Adjustments to reconcile to net cash used in operating activities:		
(Increase) decrease in pledges receivable	(1,588,574)	424,644
Increase (decrease) in payable to Sinclair Community College	163,686	(19,965)
Contributions and investment income restricted for long-term investment	(838,651)	(83,408)
Net realized/unrealized (gains) losses on investments	<u>(2,981,319)</u>	<u>1,519,921</u>
Net cash used in operating activities	<u>(1,021,420)</u>	<u>(229,864)</u>
Cash flows related to investing activities:		
Proceeds from sale of investments	843,719	2,411,462
Purchase of investments	<u>(701,710)</u>	<u>(2,626,649)</u>
Net cash provided by (used in) investing activities	<u>142,009</u>	<u>(215,187)</u>
Cash flows related to financing activities:		
Investment income restricted for endowments	164,679	-
Contributions restricted for endowments	<u>673,972</u>	<u>83,408</u>
Net cash provided by financing activities	<u>838,651</u>	<u>83,408</u>
Net decrease in cash	(40,760)	(361,643)
Cash, beginning of year	<u>464,632</u>	<u>826,275</u>
Cash, end of year	<u>\$ 423,872</u>	<u>\$ 464,632</u>

See accompanying notes to consolidated financial statements.

SINCLAIR COMMUNITY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Financial Statements: The College reports as "business-type activities," as defined by GASB Statement No. 35. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. In accordance with GASB Statement No. 35, the Statements of Net Assets, the Statements of Revenues, Expenses, and Changes in Net Assets, and the Statements of Cash Flows are reported on a consolidated basis.

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

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

- Invested in Capital Assets: capitalized physical assets, net of accumulated depreciation (see Note C).
- Restricted – Expendable: net assets related to grants and contracts activity, whose use is subject to externally-imposed restrictions
- Unrestricted: net assets that are not subject to externally-imposed restrictions. Unrestricted net assets may be designated for specific purposes by the Board of Trustees. Substantially all of the College's unrestricted net assets are designated for future uses or contingences (See Note B).

(Continued)

SINCLAIR COMMUNITY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2004 and 2003

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

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

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

Accounts Receivable: Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the federal government, state and local governments and private sources, in connection with reimbursement of allowable expenditures made pursuant to the College's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts of approximately \$1,543,000 and \$1,273,000 at June 30, 2004 and 2003, respectively.

Deferred Student Fee Income: The unearned portion of student tuition and fees for the Summer 2004 session, which began on June 16, 2004, represents deferred student fee income. Prior to 2003, the College also recorded student tuition and fees resulting from early registration for the Fall session in deferred student fee income.

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

Buildings and improvements	10-40 years
Equipment and fixtures	3-20 years
Library materials	10 years

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

(Continued)

SINCLAIR COMMUNITY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2004 and 2003

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

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

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

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

Reclassifications: Certain 2003 items have been reclassified to conform to the 2004 presentation.

NOTE B - CASH AND INVESTMENTS

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

(Continued)

SINCLAIR COMMUNITY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE B - CASH AND INVESTMENTS (Continued)

Deposits: At June 30, 2004, the carrying amount of the College's deposits in all funds was \$9,105,113 (included in cash and cash equivalents in the balance sheet) and the bank balance was \$13,271,627. The difference between carrying amount and bank balance was primarily due to outstanding checks at June 30, 2004. Of the bank balance, \$400,000 was covered by federal depository insurance or by collateral held by the College's agent in the College's name. The remaining balance of \$12,871,627 was uninsured. The uninsured deposits are held in accounts collateralized by a pooled collateral account at the Federal Reserve Banks of Cleveland and Cincinnati. These arrangements are in compliance with the Ohio Revised Code.

Investments: Investments are stated at their fair value of \$114,218,359 (amortized cost basis of \$113,444,919). The College's investments include \$114,217,345 invested in Government National Mortgage Association pools and classified as category I risk. The term "risk" in this context does not refer to market risk of gain or loss in value; rather, it refers to the safety of the individual securities while held in safekeeping. In general, Category I includes investments that are insured or registered or for which the securities are held by the College or its agent in the College's name. The remaining \$1,014 was on deposit in the State Treasurer's investment pool and valued at the pool's share price, which is the price for which the investment could be sold on June 30, 2004. GASB Statement No. 3 does not require this investment to be categorized into risk categories. The College has the ability and intent to hold all investment securities until maturity; therefore, it is not anticipated that market gains or losses will be realized.

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

Capital improvements, facility renovations, equipment	\$ 64,369,887
Tuition stabilization, unplanned income decline, uninsured losses, other contingencies and initiatives	47,076,364
Auxiliary enterprises	7,340,818
Restricted grants and contracts	1,756,610
Board designated endowment	<u>11,545,440</u>
Total allocated net assets	<u>\$ 132,089,119</u>

(Continued)

SINCLAIR COMMUNITY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE C - CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2004 and 2003, is summarized as follows:

	2004 Beginning Balance	Additions	Disposals	2004 Ending Balance
Land and improvements	\$ 10,007,960	\$ 305,423		\$ 10,313,383
Buildings and improvements	184,532,325	108,050		184,640,375
Equipment and fixtures	15,957,520	1,655,564	\$ 132,049	17,481,035
Library materials	<u>4,724,074</u>	<u>193,561</u>	<u>165,367</u>	<u>4,752,268</u>
Total	<u>215,221,879</u>	<u>2,262,598</u>	<u>297,416</u>	<u>217,187,061</u>
Less accumulated depreciation:				
Buildings and improvements	82,327,743	4,962,085		87,289,828
Equipment and fixtures	7,645,783	2,421,580	110,975	9,956,388
Library materials	<u>3,263,778</u>	<u>284,679</u>	<u>165,367</u>	<u>3,383,090</u>
Total accumulated depreciation	<u>93,237,304</u>	<u>7,668,344</u>	<u>276,342</u>	<u>100,629,306</u>
Capital assets, net	<u>\$ 121,984,575</u>	<u>\$ (5,405,746)</u>	<u>\$ (21,074)</u>	<u>\$116,557,755</u>
	2003 Beginning Balance	Additions	Disposals	2003 Ending Balance
Land and improvements	\$ 9,764,295	\$ 243,665		\$ 10,007,960
Buildings and improvements	181,604,512	2,927,813		184,532,325
Equipment and fixtures	14,553,869	1,847,993	\$ 444,342	15,957,520
Library materials	<u>4,859,034</u>	<u>192,055</u>	<u>327,015</u>	<u>4,724,074</u>
Total	<u>210,781,710</u>	<u>5,211,526</u>	<u>771,357</u>	<u>215,221,879</u>
Less accumulated depreciation:				
Buildings and improvements	77,428,447	4,899,296		82,327,743
Equipment and fixtures	5,843,915	2,099,514	297,646	7,645,783
Library materials	3,296,871	293,922	327,015	3,263,778
Total accumulated depreciation	<u>86,569,233</u>	<u>7,292,732</u>	<u>624,661</u>	<u>93,237,304</u>
Capital assets, net	<u>\$ 124,212,477</u>	<u>\$ (2,081,206)</u>	<u>\$ 146,696</u>	<u>\$121,984,575</u>

(Continued)

SINCLAIR COMMUNITY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE D - LONG-TERM LIABILITIES

Long-term liabilities activity for the years ended June 30, 2004 and 2003, is summarized as follows:

<u>2004</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Compensated absences	\$ 3,852,974	\$ 384,695	\$ 149,788	\$ 4,087,881	\$ 188,424
2003					
Compensated absences	\$ 3,596,795	\$ 414,908	\$ 158,729	\$ 3,852,974	\$ 126,096

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

NOTE E - STATE AND COUNTY SUPPORT

The College is an institution of higher education that receives a state assisted student-based subsidy from the State of Ohio using a formula devised by the Ohio Board of Regents and general support from a Montgomery County, Ohio property tax levy (2-1/2 mills commencing January 1, 1999 and ending December 31, 2008).

In addition to student subsidies, the State of Ohio provides a portion of the funding for the construction of major plant facilities on the College campus, as well as for the renovation of facilities and the purchase of equipment.

NOTE F - LEASE OBLIGATIONS

The College leases various buildings, office space and equipment under operating lease agreements. These facilities and equipment are not recorded as assets on the balance sheet. The total rental expense under these agreements was \$313,438 and \$599,625 for the years ended June 30, 2004 and 2003, respectively.

(Continued)

SINCLAIR COMMUNITY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE F - LEASE OBLIGATIONS (Continued)

Future minimum lease payments for all significant operating leases with initial or remaining terms in excess of one year as of June 30, 2004, are as follows:

Years ending June 30,	
2005	\$ 260,458
2006	138,326
2007	99,025
2008	69,921
2009	32,700
2010-2014	<u>3,000</u>
Total minimum lease payments	<u>\$ 603,430</u>

NOTE G - RETIREMENT PLANS

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

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

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

OPERS plan members are required to contribute 8.5% (10.1% for law enforcement officers) of their annual salary, and STRS members contribute 10%. The College is required to contribute 13.55% (16.70% for law enforcement officers) and 14.00% of annual covered payroll for OPERS and STRS, respectively. The contribution requirements of plan members and the College are established and may be amended by state statute.

(Continued)

SINCLAIR COMMUNITY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE G - RETIREMENT PLANS (Continued)

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

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

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

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

Employees electing the ARP instead of STRS are required to contribute 9.3% of salary. The College is required to contribute 3.5% to STRS, and the College's discretionary contribution to the ARP has been set at 10.5%.

Employees electing the ARP instead of OPERS are required to contribute 8.5% of salary. The College's discretionary contribution to the ARP has been set at 13.55%.

The College's contributions to OPERS, STRS and ARP required and made for the years ended June 30, 2004, 2003, and 2002 were as follows:

<u>Year</u>	<u>OPERS</u>	Contribution <u>STRS</u>	<u>ARP</u>
2004	\$ 3,757,130	\$ 4,836,977	\$ 247,753
2003	3,673,936	4,827,659	174,172
2002	3,441,293	4,605,624	130,180

NOTE H - OTHER POSTEMPLOYMENT BENEFITS

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

(Continued)

SINCLAIR COMMUNITY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE H - OTHER POSTEMPLOYMENT BENEFITS (Continued)

A portion of each employer's contributions is set aside for the funding of postretirement health care. For STRS, this rate for fiscal year ended June 30, 2003 was 1.0% of the employer contribution rate of 14.00% (see Note G). For 2003, the rate for OPERS and the law enforcement division was 5% of the total employer contribution rates of 13.55% and 16.70%, respectively. The Ohio Revised Code provides the statutory authority for public employers to fund postretirement health care through their contributions to OPERS and STRS.

Postretirement health care under OPERS is advance-funded on an actuarially determined basis. The actuarial value of OPERS net assets available for Other Postemployment Benefits (OPEB) at December 31, 2002, is \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion, respectively. The number of OPERS active contributing participants was 364,881 at year-end December 31, 2002. For the year ended June 30, 2004, the College contributed \$1,427,568 to OPERS for OPEB funding, which is equal to the actuarially required contributions of the plan.

Postretirement health care under STRS is financed on a pay-as-you-go basis. Assets available in the health care reserve fund for STRS amounted to \$2.8 billion as of June 30, 2003. Eligible benefit recipients reported for STRS totaled 108,297 as of June 30, 2003. For the year ended June 30, 2004, the College contributed \$537,765 to STRS to fund these benefits.

NOTE I - INSURANCE

The College maintains comprehensive and umbrella insurance coverage with private carriers for real property, building contents, vehicles and liability. Vehicle policies include liability coverage for bodily injury and property damage. The College also carries professional coverage for employees and its Board of Trustees. The College retains a consulting firm to perform an annual examination of all insurance policies.

NOTE J - CONTINGENCIES

The College receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the College. It is the opinion of management that any potential disallowance of claims would not have a material effect on the financial statements.

(Continued)

SINCLAIR COMMUNITY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE K - SINCLAIR COMMUNITY COLLEGE FOUNDATION

The financial statements of the Sinclair Community College Foundation are included in this report in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units - an amendment of GASB Statement No. 14*. This Statement amended Statement No. 14 to provide additional guidance to determine whether certain organizations, such as not-for-profit foundations, for which the primary institution is not financially accountable, should be reported as component units based on the nature and significance of their relationship with the primary entity. Generally, this statement requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of an institution. The provisions of this Statement became effective for financial statements for periods beginning after June 15, 2003.

The Sinclair Foundation is a 501(c)(3) charitable foundation with its own governing board. The Foundation is operated for the benefit of the College, and raises funds that are used to provide student scholarships and to support specific activities and projects proposed by faculty and staff that are related to the College's educational mission. Each of the Foundation's financial statements for the year ended December 31, 2003 and 2002 is discreetly presented following the respective College financial statement.

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

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

Investments at cost value December 31:

	2003	2002
Fixed income securities	\$ 4,043,000	\$ 4,042,883
Equities	11,115,039	11,176,393
Miami Valley Venture Funds	<u>112,044</u>	<u>123,296</u>
Total investments	<u>\$ 15,270,083</u>	<u>\$ 15,342,572</u>

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

(Continued)

SINCLAIR COMMUNITY COLLEGE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE K - SINCLAIR COMMUNITY COLLEGE FOUNDATION (Continued)

Pledges Receivable: As the collection of pledges is estimated to be probable, the Foundation recorded a receivable of \$3,851,235, representing the present value of those pledges receivable at December 31, 2003. The fair value of pledges due within one year approximates its carrying value due to the short-term nature of the receivable. The remaining receivables have been discounted to reflect the present value of expected future cash flows using a discount rate of 5%.

Pledges receivable at December 31, 2003 are summarized as follows:

	Less than 1 Year	1-5 Years	More than 5 Years	Total
Pledges receivable	\$ 1,393,690	\$ 2,672,227	\$ -	\$ 4,065,917
Unamortized discount	-	(214,682)	-	(214,682)
Present value of pledges receivable	1,393,690	2,457,545	-	3,851,235
Allowance for doubtful accounts	-	-	-	-
Pledges receivable, net	<u>\$ 1,393,690</u>	<u>\$ 2,457,545</u>	<u>\$ -</u>	<u>\$ 3,851,235</u>

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

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

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

Support to the College: During the year ended June 30, 2004, the Foundation provided resources of \$1,116,000 to or on behalf of the College for restricted purposes. Complete financial statements for the Foundation can be obtained from the Sinclair Community College Foundation at 444 W. Third St., Room 7230, Dayton, Ohio, 45402.

(Continued)

SUPPLEMENTARY INFORMATION

SINCLAIR COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2004

Federal Grants/Pass-Through Grant/Program Title	<u>Federal CFDA Number</u>	<u>Pass-through Grantor's Numbers</u>	<u>Federal Expenditures</u>
U.S. Department of Education:			
Student Financial Assistance Cluster:			
Federal Supplemental Educational Opportunity Grant	84.007		\$ 264,333
Federal Work Study Program	84.033		33,259
Federal Pell Loan Program	84.063		13,278,583
Federal Direct Loan Program	84.268		<u>6,482,158</u>
Total student financial assistance cluster			<u>20,058,333</u>
Trio Cluster:			
Trio Upward Bound	84.047		299,357
Trio Student Support Services	84.042		<u>262,600</u>
Total Trio cluster			<u>561,957</u>
Adult Education State Grant Program, pass-through from State of Ohio Department of Education	84.002	063362-AB-SI-2002, 063362-AB-SI-2002 C, 063362-AB-SL-2002, 063362-AB-SI-2002 C, 063362-AB-SI-2003	417,931
Vocation Education Basic Grants to States, pass-through Department of Education	84.048	20-C2 2003	219,914
Tech Prep Education, pass-through from State of Ohio Department of Education	84.243	3E-00 2002 and 3ETC-2003	298,096
Child Care Access Means Parents in School	84.335		63,981
National Science Foundation - Education and Human Resources	47.076		1,160,333
U.S. Department of Health and Human Services - Temporary Assistance for Needy Families, pass-through from Montgomery County Department of Human Services	93.558	Resolution 02-2145 Resolution 02-1153	1,462,100

See accompanying notes to schedule of expenditures of federal awards.
(Continued)

SINCLAIR COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2004

Federal Grants/Pass-Through Grant/Program Title	<u>Federal CFDA Number</u>	<u>Pass-through Grantor's Numbers</u>	<u>Federal Expenditures</u>
U.S. Department of Labor:			
Native American Employment and Training Program, pass-through from Montgomery County Department of Human Services	17.251	Resolution 02-1353	\$ 116,892
Workforce Investment Act Dislocated Workers, pass-through from Montgomery County Department of Human Services	17.260	Resolution 03-813	145,069
Employment and Training Administration Pilots, Demonstrations, and Research Projects	17.261		362,982
National Urban and Rescue Response System, pass-through from Miami Valley Fire/EMS Alliance	83.526	9062000	14,799
U.S Department of Agriculture - Summer Food Service Program for Children, pass-through from State of Ohio Department of Education	10.559	23 UN 2002	2,836
National Aeronautics and Space Administration Aerospace Education Services Program, pass-through from Cuyahoga Community College	43.001	NAS 3-02123-SCC	137,019
Strengthening Institutions	84.031		164,071
Learn and Serve America Higher Education, pass-through from the Corporation for National and Community Service/AACC	94.005	03LHHDC001	4,895
Volunteers in Service to America, pass-through from AmeriCorps	94.013	03NDHTX001	<u>97,074</u>
Total Federal Awards			<u>\$ 25,288,282</u>

See accompanying notes to schedule of expenditures of federal awards.

SINCLAIR COMMUNITY COLLEGE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2004

NOTE 1 - BASIS OF PRESENTATION

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

SINCLAIR COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2004

1. Summary of Auditor's Results

- a. An unqualified opinion was issued on the consolidated financial statements of Sinclair Community College for the year ended June 30, 2004.
- b. An unqualified opinion was issued to Sinclair Community College for compliance with major programs.
- c. The audit did not disclose any noncompliance that is material to the financial statements.
- d. There were no audit findings required to be disclosed under OMB Circular A-133 Section 510(a).
- e. Major Programs Identified:

U.S. Department of Education

Student Financial Aid Cluster: Federal Pell Grants 84.063, Federal Supplemental Educational Opportunity Grants 84.007, Federal Work Study 84.033, Federal Direct Student Loans 84.268.

National Science Foundation – Education and Human Resources

U.S. Department of Health and Human Services – Temporary Assistance for Needy Families

- f. The dollar threshold used to distinguish between Type A and Type B programs was \$564,184.
 - g. The auditee was considered a low-risk auditee.
2. Findings related to financial statements which are required to be reported in accordance with GAGAS:

None.

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

None.

PRIOR YEAR FINDINGS

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



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

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

We have audited the financial statements of Sinclair Community College (the “College”) as of and for the year ended June 30, 2004, and have issued our report thereon dated September 23, 2004. 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.


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*. However, we have communicated other observations involving immaterial instances of noncompliance to the management of the College in a separate letter dated September 23, 2004.

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 specific 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 College's internal control over financial reporting and its operation that we consider to be material weaknesses. However, we have communicated other observations involving the internal control over financial reporting to the management of the College in a separate letter dated September 23, 2004.

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



Crowe Chizek and Company LLC

Columbus, Ohio
September 23, 2004



Crowe Chizek and Company LLC
Member Horwath International

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

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

Compliance

We have audited the compliance of Sinclair Community College (the "College") with the types of compliance requirements described in the *US. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. The College's major federal programs are identified in the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

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

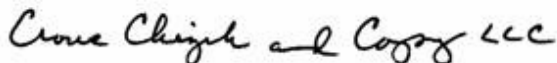
In our opinion, the College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

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

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

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



Crowe Chizek and Company LLC

Columbus, Ohio
September 23, 2004



**Auditor of State
Betty Montgomery**

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Columbus, Ohio 43216-1140

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**SINCLAIR COMMUNITY COLLEGE
MONTGOMERY COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 28, 2004**