Stark State College

Basic Financial Statements
June 30, 2012

Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Stark State College, Stark County, prepared by Ciuni & Panichi, Inc., for the audit period July 1, 2011 through June 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Dave Yost

Dave Yost
Auditor of State

January 7, 2013

88 East Broad Street, Fifth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-4514 or 800-282-0370 Fax: 614-466-4490
www. auditor.state.oh.us

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Stark State College

For the Year Ended June 30, 2012

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Ciuni &
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Independent Auditor's Report

Board of Trustees
Stark State College
North Canton, Ohio

We have audited the accompanying financial statements of the business-type activities of Stark State College (the "College"), as of and for the year ended June 30, 2012 as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the College, as of June 30, 2012, and the respective changes in financial position and cash flows 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 December 28, 2012, 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 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.

C&P Advisors, LLC
Ciuni & Panichi, Inc.
C&P Wealth Management, LLC

25201 Chagrin Boulevard
Cleveland, Ohio 44122.5683
p. 216.831.7171
f. 216.831.3020
www.cp-advisors.com
Independent Member of
Geneva Group International

Board of Trustees
Stark State College

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ciuni & Panichi, Inc.

Cleveland, Ohio
December 28, 2012

STARK STATE COLLEGE
Management's Discussion and Analysis (MD&A)
For the year ended June 30, 2012

The discussion and analysis of the financial statements of Stark State College (the "College") provide an overview of financial activities for the years ended June 30, 2012 and 2011. Management has prepared the financial statements and the related note disclosures along with this discussion and analysis. The responsibility for the completeness and fairness of this information rests with the preparers.

Using this Annual Report

The College is reporting its financial position in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and GASB Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities—an amendment of GASB Statement No. 34,* as amended by GASB Statements No. 37 and 38. Comparative condensed financial information has been presented for the current year and the prior year.

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

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

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

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

Condensed Statement of Net Assets

(in thousands)

	2012	2011
Assets		
Current Assets		
Cash & cash equivalents	$22,485	$19,217
Student accounts receivable, net	5,827	8,204
Intergovernmental receivables	2,775	3,410
Other current assets	4,020	2,709
Total current assets	35,107	33,540
Noncurrent Assets		
Capital assets, net	83,185	76,258
Other noncurrent assets	3,572	12,977
Total noncurrent assets	86,757	89,235
Total assets	$121,864	$122,775
Liabilities & Net Assets		
Current Liabilities		
Accounts payable & accrued liabilities	$3,318	$7,057
Deferred income	2,520	2,593
Other current liabilities	3,477	4,191
Total current liabilities	9,315	13,841
Long-Term Liabilities	19,008	19,650
Total liabilities	28,323	33,491
Net Assets		
Invested in capital assets, net of related debt	65,556	64,372
Restricted	590	1,074
Unrestricted	27,395	23,838
Total net assets	93,541	89,284

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

Condensed Statement of Revenues, Expenses and Changes in Net Assets

(in thousands)

	2012	2011	Increase (Decrease) $	Increase (Decrease) %
Revenues				
Operating Revenues				
Tuition and fees, net	$30,400	$31,076	($676)	-2.2%
Federal grants and contracts	2,716	4,627	(1,911)	-41.3%
Auxiliary enterprises: bookstore	11,071	7,573	3,498	46.2%
Other operating revenues	3,098	2,551	547	21.4%
Total operating revenues	47,285	45,827	1,458	3.2%
Expenses				
Operating Expenses				
Educational and general	99,563	96,797	2,766	2.9%
Auxiliary enterprises: bookstore	8,986	6,192	2,794	45.1%
Total operating expenses	108,549	102,989	5,560	5.4%
Operating income (loss)	(61,264)	(57,162)	(4,102)	-7.2%
Nonoperating Revenues (Expenses)				
State appropriations	24,728	21,603	3,125	14.5%
Federal grants	36,572	40,641	(4,069)	-10.0%
Other nonoperating income	580	381	199	52.2%
Other nonoperating expenses	(841)	(1,669)	828	-49.6%
Net nonoperating revenues (expenses)	61,039	60,956	83	0.1%
Income (loss) before other revenues, expenses, gains or losses	(225)	3,794	(4,019)	-105.9%
Capital appropriations, gifts & grants	4,482	4,043	439	10.9%
Increase in net assets	4,257	7,837	(3,580)	-45.7%
Net assets, beginning of year	89,284	81,447	7,837	9.6%
Net assets - end of year	$93,541	$89,284	$4,257	4.8%

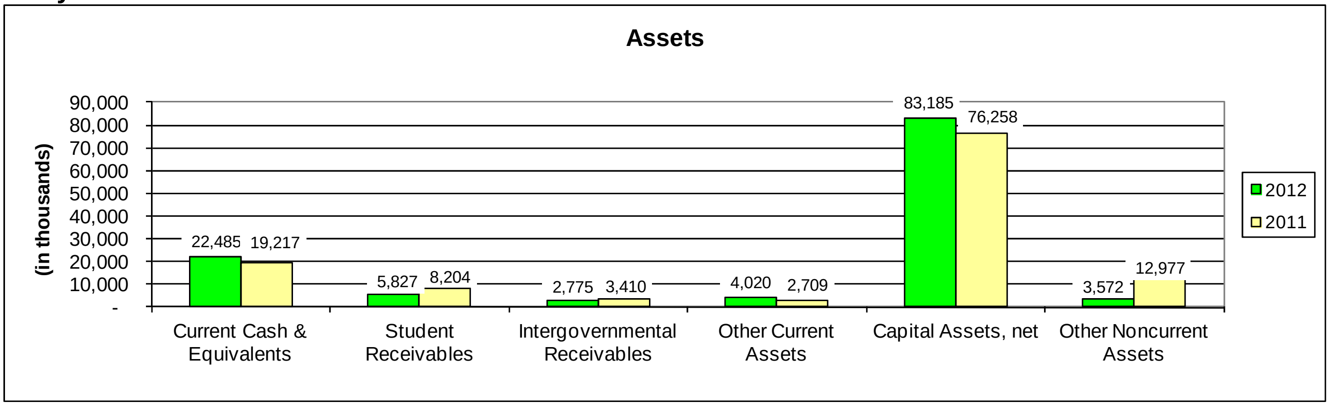
The Statement of Cash Flows presents the sources and uses of all cash transactions conducted by the College, broken down by type of functional activity. This statement assists the reader in determining the College's ability to generate future cash flows, meet its obligations as they become due and assess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

Condensed Statement of Cash Flows

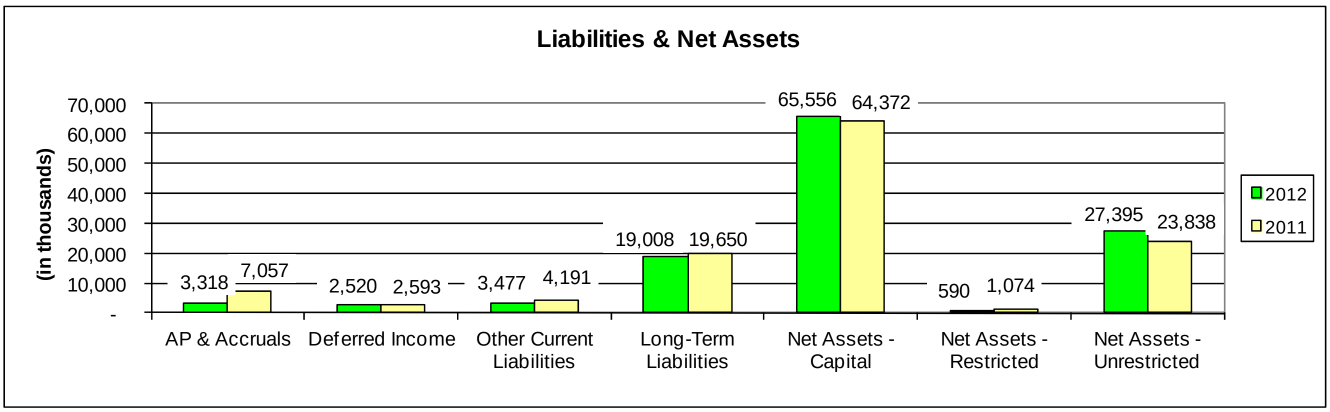
(in thousands)

	2012	2011	Increase (Decrease) $	Increase (Decrease) %
Net cash provided (used) by Operating Activities	($58,436)	($56,644)	($1,792)	-3.2%
Net cash provided (used) by Noncapital Financing Activities	62,763	62,825	(62)	-0.1%
Net cash provided (used) by Capital Financing Activities	(10,153)	7,538	(17,691)	-234.7%
Net cash provided (used) by Investing Activities	20	1	19	1900.0%
Net increase in cash	(5,806)	13,720	($19,526)	-142.3%
Cash - beginning of year	29,512	15,792	13,720	86.9%
Cash - end of year	23,706	29,512	($5,806)	-19.7%

Analysis of Assets and Liabilities



Total assets decreased by $911,000 during the year to a year-end amount of $121,864,000. Of this amount, $6,927,000 was related to net capital asset increases. Total cash and cash equivalents, including restricted cash classified as other noncurrent assets, decreased by $5,806,000. Student accounts and intergovernmental receivables decreased by $3,012,000. Other noncurrent assets had a net decrease of $9,405,000.

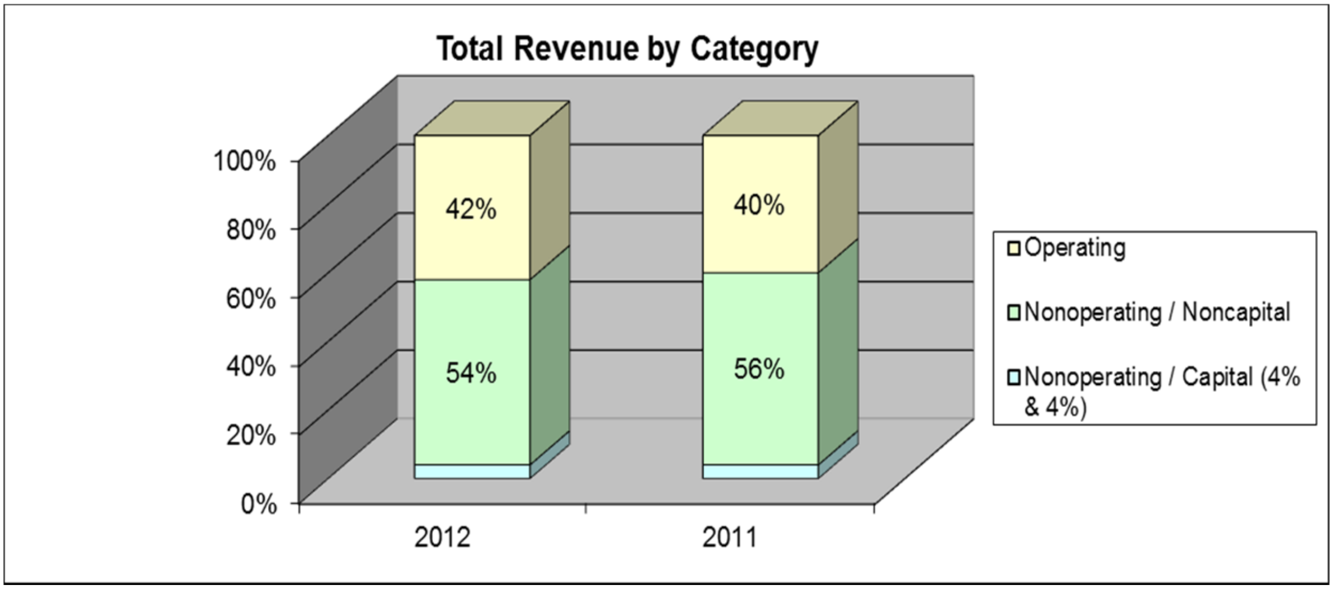


Total liabilities decreased since the beginning of the year by $5,168,000 to a year-end amount of $28,323,000. The noncurrent long-term liabilities decreased $642,000 to $19,008,000 due to debt payments on $20,000,000 in long-term construction bonds. Current liabilities decreased by $4,526,000 to $9,315,000 due to the payoff of construction payables for the construction of two new building projects that were closed out during the year.

Total net assets increased $4,257,000, of which $1,184,000 was related to net capital assets. Unrestricted net assets increased by $3,557,000, and net restricted assets decreased $484,000. The positive change in unrestricted net assets was the result of favorable operating results combined with lesser outlays of cash for capital projects from operating funds compared to prior years, which are presented in the analysis of the Statement of Revenues, Expenses and Changes in Net Assets.

Analysis of Revenues

The following chart provides categorical ratios of the College's revenue as a whole for the years ended June 30, 2012 and 2011:

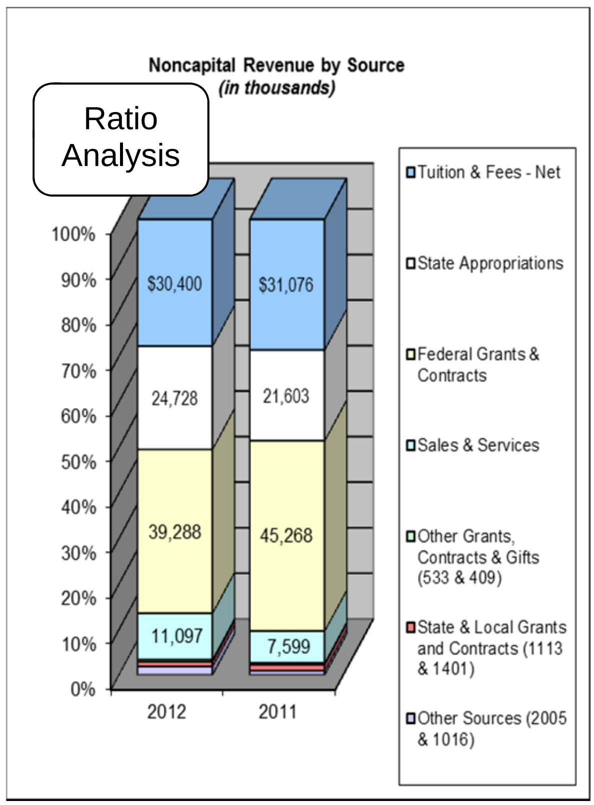


The state share of instruction appropriation is the statutory burden of the state of Ohio for operating the College. This is classified as nonoperating revenue under generally accepted accounting principles, and it accounted for 23% and 20% of total revenue in 2012 and 2011. Other revenue includes capital appropriations, which is a subset of nonoperating revenue.

A traditional comparison of College revenue focuses on noncapital revenue. These are the funds which are spent for ongoing operations. The total of these revenues increased $792,000 this year (0.7%). This analysis will focus on the traditional revenues used for ongoing operations which are comparable to prior years' financial statements.

The board of trustees increased tuition for the Fall 2011 semester from $135.75 per credit hour to $140.50. The tuition rate change increased revenue by $1,298,000, while enrollment declines lessened net tuition and fees by $1,974,000 compared to the prior year.

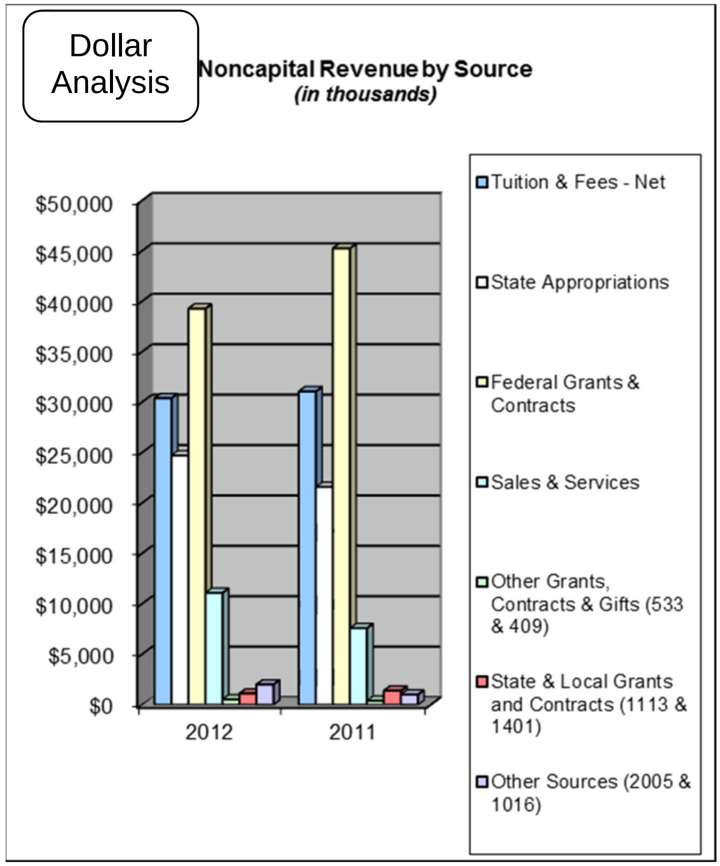
The state's general revenue fund portion of the share of instruction appropriation, which is the primary source of state funding dedicated to support the operations of the College, increased from prior year levels by $3,064,000 (14.2%) because the College grew more than the average rate of growth during the prior two years compared to other Ohio two-year colleges.



Sales & services, which include auxiliary enterprise revenue from the College bookstore, increased this year by $3,498,000 (46.0%) due to increased sales of technology products slight textbook price inflation and gasoline card sales, along with increased sales of non-textbook items, which were somewhat offset by changes to the sales mix of new vs. used textbooks.

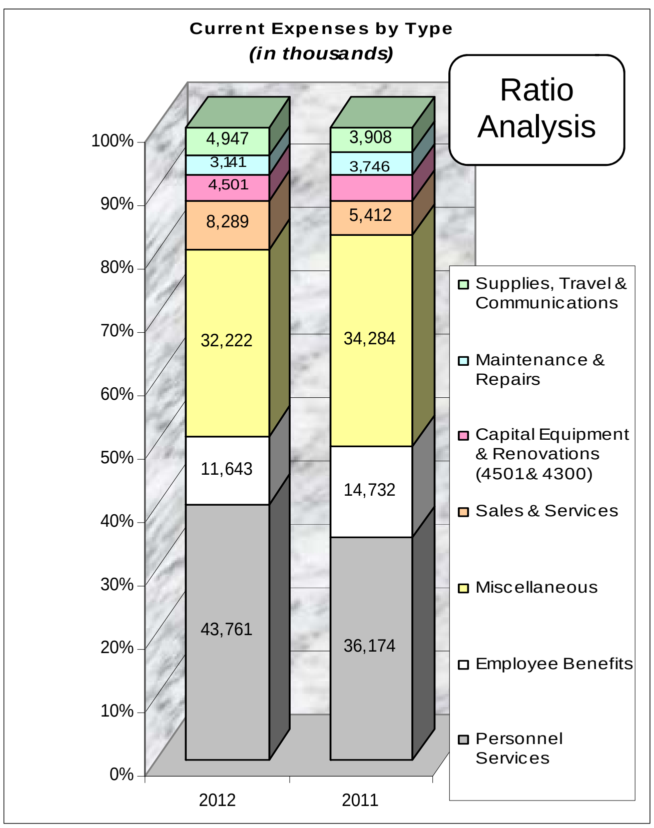
Decreases in federal grants totaling $5,980,000 were due mainly to the decline in enrollment and the discontinuation of ARRA funding ($3,674,000 were used by the state legislature to supplant general revenue funds in the prior year).

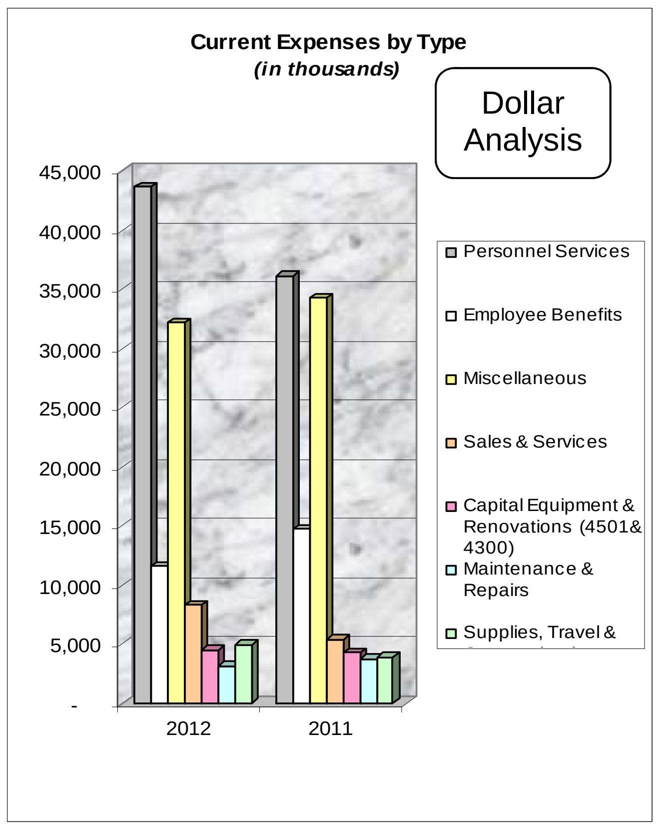
Other noncapital revenue consisting of state/local/other grants, contracts and other sources increased in total by $825,000, due mainly to increased rental income, offset in part by decreases in interest earnings and corporate training grants.



Analysis of Expenses

This analysis focuses on the College's operating budget categories; known as current





expenses, which are normally reported in fund financial statements. These expenses approximate the College's expenses reported in the Statement of Revenues, Expenses and Changes in Net Assets adjusted for depreciation and reduced by the capital equipment & renovations category, which were plant fund activities. While total enrollment declined 2.2%, expenses increased 5.8%.

The College made significant changes to its salary and wage package which had the effect of dramatically increasing salary and wage costs and decreasing employee benefit costs. Previously, the College paid for 100% of the employee's statutory retirement contribution and 100% of employee health care premiums. Effective July 1, 2011, the College reallocated the cost of certain employee fringe benefits to the employee's wage base, increased all existing employee salaries and wages by an amount necessary to hold the employees essentially harmless for deducting 10% of their paycheck for retirement, and 15% of their health care premiums.

The effect of the changes to the salary and wage package was to increase average salaries by 16.7% for full time employees and 11.1% for part time employees. Total salary and wages increased 21.0%. The annual wage increase was 3.5% for all employees. The College increased the usage of part-time instructors. Several full-time positions were created late in the prior fiscal year. Additional adjunct faculty costs were incurred during the Summer and Fall 2011 terms when additional classes were offered to attract more students.

Employee benefits decreased 21.0% from the prior year. In addition to the employees paying for their share of the retirement and health care benefits, the major factor affecting benefits included a 5% increase in health care premiums, and general cost increases due to higher staffing levels, netted against savings from an increased use of adjunct faculty, who do not receive health care benefits, thereby decreasing the average net benefit cost per labor unit. Significant positive experience allowed the College to reduce the required health insurance reserve by 8.9% at the end of the fiscal year.

Miscellaneous expenses decreased 6.0% over the prior year. Student aid, which encompassed 82% of the College's miscellaneous expenses, increased by 2.3%. Grants from outside entities were the source for most of these costs. Library services are provided by Kent State University's Stark Campus, for which the College pays based on enrollment. Therefore library costs decreased due to lower enrollment. Software and professional services increased modestly, while bad debt write-offs increased significantly due to students who left the College after receiving aid for which the College remains responsible for repaying. Payments for outside services were reduced by 1/3. Other miscellaneous expenses increased, included the cost of insurance due to higher reported property values following the completion of two buildings.

Sales & services expenses increased by 53.2% due to increased sales in the college bookstore. This was primarily the result of adding laptop computers, iPads and prepaid gasoline cards to their retail offerings. While the College shifted the sales mix of new vs. used books toward used, which lowered the average cost, textbook manufacturers increased the use of bundled software, requiring students to purchase new books at a higher cost.

Maintenance and repairs decreased 16.2% over the prior year due to an effort to limit expenses following the downturn in enrollment. Additional electricity was needed due to extended use of the facilities to accommodate increased operating hours, while less natural gas and road salt were used due to a mild winter.

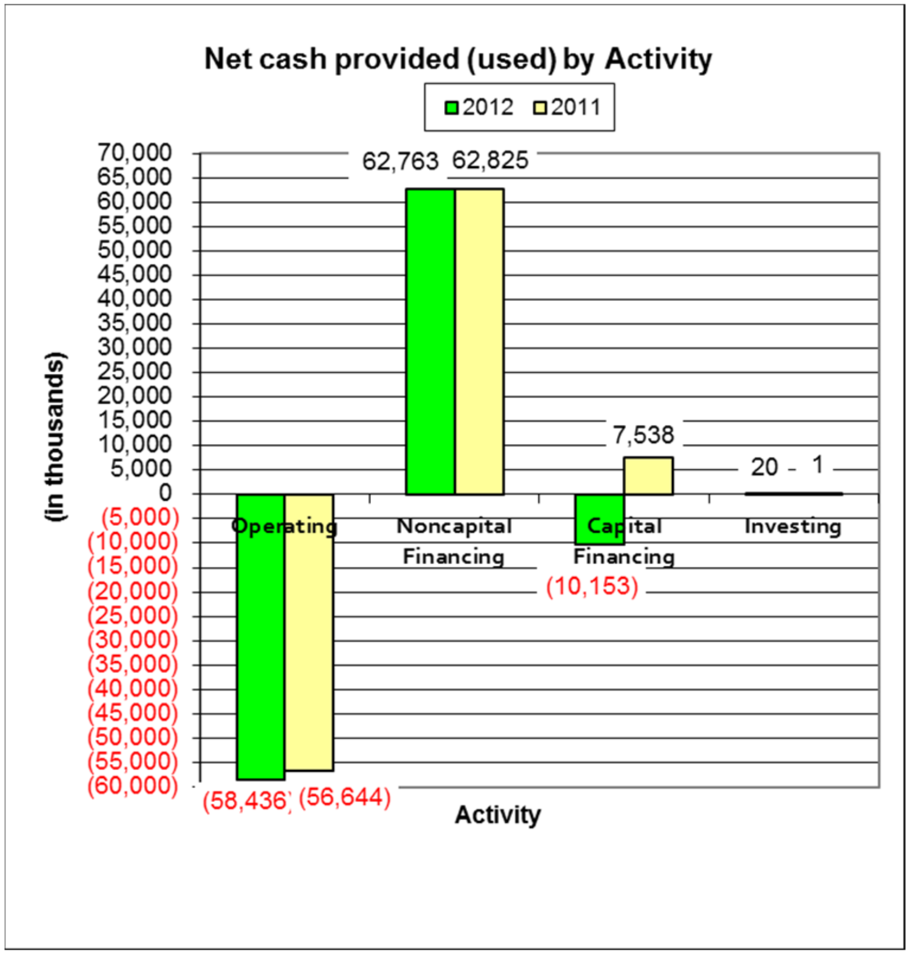
Equipment purchases from current funds increased modestly by 4.7% from the prior year. Most major purchases were for College IT equipment and scientific equipment as part of multiple federal grants in the fuel cell development arena.

Communications expenses increased by 14.3%. Printing and advertising increased due to additional direct marketing efforts. The College incurred significant increases for marketing and advertising to promote satellite locations in downtown Canton, Carrollton, Alliance and Barberton, Ohio. Telecommunications costs associated with increased distance learning and additional locations also rose.

The College reduced operating supplies paid through the College's general fund by 11.9%. However, total supplies costs increased 40.4% this year due to increases in the amount of supplies purchased to meet grant requirements. Improved procurement procedures helped contain costs. Material costs for minor renovation projects by the maintenance department were incurred, but not capitalized under the College's capitalization policy.

The College generally reduced travel costs paid for through the College's general fund, but incurred additional expenses due to a presidential search. The instructional division also developed in-house professional development programs which helped constrain the rate of growth. In total, travel costs increased slightly by 2.4% due to travel incurred to meet grant requirements.

Analysis of Cash Flows



The College's liquidity decreased during the year, primarily due to paying for the completion of two buildings that were under construction at the beginning of the year. Cash flows from operations were more than cash flows coming in from noncapital nonoperating categories. State general revenue funding for general operations increased over the prior year. By definition, noncapital financing activities include the subsidy from the Board of Regents called state share of instruction (SSI). The state GRF portion of this line item increased due to the College's proportional enrollment compared to all other state assisted two-year colleges over the past two years.

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

Noncapital financing decreased slightly. Although there was additional support from the state of Ohio's general revenue fund, it was offset by lower inflows from grants than during the prior year, including the end of ARRA funding for operations.

Capital financing activities provided proceeds from state appropriations, Federal and state grants and gifts. Bond proceeds were disbursed as needed to make vendor payments on construction projects. More cash outflows were required for facilities projects. Capital funds were used for the renovation of space in the Phase II building for new engineering division offices. Additional capital outlays were used for final payments on a new academic building and a new business center, various building renovations, grounds improvements and other capital equipment. These purchases constituted the majority of the College's capital activity.

Lower interest rates approaching zero provided little cash flow from investing activities this year.

Economic Outlook for the Future

The economy in Ohio has suffered greatly under the current recession. Large job losses have affected all sectors of the state's economy. The Ohio unemployment rate is a little better than the national unemployment rate. The current unemployment rate for Ohio was 6.8% as of November 2012, according to the Ohio Department of Jobs and Family Services. The U-6 total unemployment estimate, including those who have run out of unemployment benefits, those who desire work but are not on unemployment, and those who have stopped looking for work because they believe there is not any work available exceeds 11% in Ohio. This number does not include almost 5% of the working age population who have been deemed to no longer be included in the workforce as determined by the Bureau of Labor Statistics. While the unemployment rate has declined slightly in recent months, it is due to people dropping out of the official count and a reduction in the official estimate of the number of jobs in the economy rather than there being an increase in employment.

The state of Ohio is receiving slightly more tax revenue than last year from most sources, including income, sales, property taxes and the commercial activities tax. The state of Ohio has flat-funded appropriations for higher education for this biennium. The governor has requested that the funding formula for higher education be changed from an enrollment-based formula to an outcomes-based formula. The final decision on such a change will have to be made by the state legislature. Management cannot determine the impact this will have on funding for the College.

We foresee that there may be future growth in the Ohio economy. One bright spot in the Ohio economy is that the oil and gas industry will continue to grow, creating more jobs and lowering the cost of energy, which will allow for real economic recovery in all sectors.

Final Analysis

President Dr. John O'Donnell resigned July 31, 2011, and was replaced by Dr. Para M. Jones on January 31, 2012. With Dr. Jones' leadership, the board of trustees is committed to establishing new programs in emerging technologies that can increase enrollment and promote economic development in the College's service area. It is also committed to providing greater access through a revitalized satellite plan, academic outreach in Summit County and distance learning. Current initiatives include the creation of a $10 million oil & gas training campus in Canton to prepare the region for the oil and gas boom that has started to occur.

The College is dependent on the state of Ohio for funding, and state revenue has been meeting the budget projections to this point of the year. The legislature has made the funding of higher education a priority, by maintaining level funding for higher education institutions while decreasing funding to most other areas of state government.

Between increased productivity in the classroom, cost saving measures implemented, and increased fees, the College is maintaining its position despite the current state economic situation. The College has provided for the renewal of, and addition to, its facilities by establishing a dedicated fee for this purpose.

During the Fall 2012 academic term, every Ohio two-year college declined in enrollment since the last academic year. Enrollment has been down at the College by over 6% to this point in the year. This is better than the average among the two-year institutions in Ohio. Management has developed a wide-ranging set of contingency options to consider in the event of a continuing downturn in enrollment with the intent of not compromising its philosophy, goals, objectives and values. These plans include aggressive budget controls and labor redeployment planning.

In December 2012, the College implemented changes to its official policies and procedures to ensure that the College will meet the requirements of the Patient Protection and Affordable Care Act. The steps taken by the College were necessary to avoid being penalized for failing to provide affordable health insurance to eligible employees. Management believes that it has planned sufficiently to avoid added costs or fines starting in 2014.

Management firmly believes that the overall financial position of the College is strong, and that the College has demonstrated improvement in its financial condition during the past year. The College's enrollment, reserves and cash position are sufficient to endure worsening conditions into the near future.

STARK STATE COLLEGE
STATEMENT OF NET ASSETS
June 30, 2012

ASSETS		
Current Assets		
Cash & cash equivalents	$	22,484,945
Student accounts receivable, net		5,827,136
Intergovernmental receivables		2,774,962
Other receivables, net		1,848,635
Prepaid expenses and deferred charges		415,453
Insurance reserve		796,280
Inventories at cost		952,180
Bond Underwriting		7,250
Total current assets		35,106,841
Noncurrent Assets		
Restricted cash & cash equivalents		1,221,015
Restricted investments		1,650
Endowment investments		227,481
Prepaid expenses and deferred charges		38,745
Insurance reserve		1,958,224
Bond Underwriting		124,458
Capital assets, net		83,185,175
Total noncurrent assets		86,756,748
Total assets	$	121,863,589

(continued)

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

STARK STATE COLLEGE
STATEMENT OF NET ASSETS
(continued)
June 30, 2012

LIABILITIES	
Current Liabilities	
Accounts payable & accrued liabilities	$ 3,317,544
Deferred income	2,519,795
Accrued salaries & wages	1,450,289
Insurance claims payable	796,280
Compensated absences	164,095
Deposits held for others	171,641
Long-term liabilities - current portion	894,775
Total current liabilities	9,314,419
Noncurrent Liabilities	
Long-term liabilities	19,008,026
Total noncurrent liabilities	19,008,026
Total liabilities	28,322,445
NET ASSETS	
Invested in capital assets, net of related debt	65,555,844
Restricted for	
Nonexpendable	
Scholarships	261,028
Expendable	
Student grants and scholarships	29,339
Public service	42,462
Instructional departments	101,223
Student services	2,065
Capital projects	138,139
Student loans	11,792
Institutional Support	3,980
Unrestricted	27,395,272
Total net assets	$ 93,541,144

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

STARK STATE COLLEGE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2012

REVENUES		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of $ 12,706,506)	$	30,400,300
Federal grants and contracts		2,716,443
State and local grants and contracts		842,409
Nongovernmental grants and contracts		384,338
Sales and services of educational departments		25,896
Auxiliary enterprises: bookstore		11,070,899
Other operating revenues		1,844,548
Total operating revenues		47,284,833
EXPENSES		
Operating expenses:		
Educational and general:		
Instruction		34,788,615
Research		581,968
Academic support		7,726,872
Student services		7,955,976
Institutional support		11,073,769
Operation and maintenance of plant		6,040,077
Student aid		26,268,853
Public service		2,229,501
Depreciation		2,897,386
Auxiliary enterprises: bookstore		8,986,013
Total operating expenses		108,549,030
Operating loss		(61,264,197)
NONOPERATING REVENUES (EXPENSES)		
State appropriations		24,728,161
Federal grants		36,571,724
State and local grants		271,105
Gifts		148,712
Investment income		3,821
Interest on capital asset-related debt		(840,600)
Other nonoperating revenues (expenses)		156,120
Net nonoperating revenues (expenses)		61,039,043
Loss before other revenues, expenses, gains, or losses		(225,154)
Capital grants and gifts		4,481,929
Increase in net assets		4,256,775
NET ASSETS		
Net assets, beginning of year		89,284,369
Net assets - end of year	$	93,541,144

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

STARK STATE COLLEGE
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2012

Cash Flows from Operating Activities		
Tuition and fees	$	32,700,382
Grants and contracts		4,921,615
Payments to suppliers		(27,435,432)
Payments to employees and for benefits		(55,697,023)
Payments for student aid		(26,268,853)
Loans issued to students		(3,943)
Auxiliary enterprise charges: Bookstore		11,198,360
Sales and service of educational activities		26,259
Other receipts (payments)		2,122,685
Net cash used in operating activities		(58,435,950)
Cash Flows from Noncapital Financing Activities		
State appropriations		24,728,161
Gifts and grants for other than capital purposes		37,147,661
Stafford, PLUS, NEALP and other loans received		81,420,163
Stafford, PLUS, NEALP and other loans disbursed		(81,420,163)
Agency transactions		887,008
Net cash provided by noncapital financing activities		62,762,830
Cash Flows from Capital Financing Activities		
Proceeds from capital debt		7,251
Capital grants and gifts received		2,111,674
Purchases of capital assets		(10,624,030)
Principal paid on capital debt and leases		(807,744)
Interest paid on capital debt and leases		(840,600)
Net cash used in capital financing activities		(10,153,449)
Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments		16,887
Interest on investments		3,936
Net cash provided by investing activities		20,823
Net decrease in cash		(5,805,746)
Cash - beginning of the year		29,511,706
Cash - end of year	$	23,705,960

(continued)

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

STARK STATE COLLEGE
STATEMENT OF CASH FLOWS
(continued)
For the Year Ended June 30, 2012

Reconciliation of net operating revenues (expenses) to net cash provided (used) by operating activities:	
Operating loss	$ (61,264,197)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation expense	2,897,386
Changes in assets and liabilities:	
Receivables, net	3,571,783
Inventories	(379,273)
Other assets	286,906
Accounts payable	(3,666,784)
Deferred revenue	(72,990)
Compensated absences	191,219
Net cash used in operating activities	$ (58,435,950)

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

1. DESCRIPTION OF THE ENTITY

Stark State College (the “College”) was originally chartered in 1966 under provisions of the Ohio Revised Code as a Technical College. The College offers more than 230 associate degrees, options, one-year and career enhancement certificates in business and entrepreneurial studies, education and human services, engineering, industrial and emerging technologies, health sciences, information technology, liberal arts, mathematics and sciences. Degrees awarded are: associate of arts, associate of science, associate of applied science, associate of applied business and associate of technical studies. The College also offers degrees in conjunction with Kent State University in associate of arts, associate of applied business and associate of science. A wide range of short-term career enhancement certificates help employees improve skills and gain a competitive edge in a society with rapidly-changing technology. Career enhancement certificates lead to associate degrees and one-year certificates in various fields of study. The College also offers noncredit continuing education classes and customized contract-training services to companies and employees in the region. A seven-member Board of Trustees governs the College, which is a political subdivision of the State of Ohio.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

B. Measurement Focus – The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred. All significant interfund transactions have been eliminated.

C. Operating and Non-Operating Revenues and Expenses – Operating revenues are those that generally result from exchange transactions such as payments received for providing goods and services and payments made for goods or services. Non-operating revenues and expenses result from capital and related financing activities, noncapital financing activities including state appropriations or investing activities.

D. Deferred Income – Deferred income arises when assets are recognized before revenue recognition criteria have been satisfied. The unearned portion of student tuition and fees for the summer session 2012 and all of the payments of student tuition and fees resulting from early registration for the fall session 2012 have been deferred.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The College adheres to GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3.* This statement amends certain custodial risk provisions of GASB Statement No. 3 and addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk.

During fiscal year 2012, investments were limited to STAR Ohio, U.S. Treasury and Agency items, mutual funds, corporate notes, and corporate stock.

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

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

G. Capital Assets – Land, land improvements, buildings and improvements, infrastructure, equipment, software and library books are stated at original acquisition costs. Donated capital assets are capitalized at estimated fair market value on the date of the gift. When capital assets are sold or otherwise disposed of, the net carrying value of such assets is removed from the accounts and the Invested in Capital Assets – net of related debt component of net assets is adjusted accordingly. Capital assets, with the exception of land, are depreciated on the straight-line method over the following estimated useful lives:

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements which extend the useful life or increase the capacity or operating efficiency of the asset are capitalized at cost. Infrastructure assets consisting of roads and drainage systems are capitalized and reported. The College's capitalization threshold is $5,000 for equipment and software, $25,000 for land improvements, $50,000 for buildings, and $250,000 for infrastructure.

H. Insurance Reserve – The insurance reserve is based on a percentage of ownership in the Stark County Local School System – Health Benefit Plan prepared by the Stark County Council of Governments:

I. Compensated Absences - Vacation leave and other compensated absences with similar characteristics are accrued as a liability as the benefits are earned by the employees if both of the following conditions are met:

1. The employees' rights to receive compensation are attributable to services already rendered.

2. It is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

J. Net Assets – Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use. The College identifies net assets restricted as either nonexpendable or expendable. Nonexpendable net assets represent endowment contributions from donors that are permanently restricted as to principal. Expendable net assets relate to grants and contract activity, whose use is subject to externally imposed restrictions. Unrestricted net assets are not subject to restrictions and may be designated for specific purposes by the Board of Trustees. Of the College's restricted net assets of $590,028, none were restricted by enabling legislation.

K. Grants and Scholarships – Student tuition and fees are presented net of grants and scholarships applied directly to student accounts.

L. Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

M. Public Entity Risk Pools

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

L. Subsequent Events – In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through December 28, 2012, the date the financial statements were available to be issued.

3. CASH AND INVESTMENTS

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

The investment and deposit of College monies is governed by the Ohio Revised Code. In accordance with the Ohio Revised Code, only banks located in Ohio and domestic building and loan associations are eligible to hold public deposits. Also, the investment of the College's funds are restricted to certificates of deposit, savings accounts, money market accounts and the State Treasurer's Investment Pool (STAR Ohio), obligations of the United States Government or certain agencies thereof and certain industrial revenue bonds issued by other governmental entities. The College may also enter into repurchase agreements with any eligible depository for a period not exceeding thirty days. Public depositories must give security for all public funds on deposit. These institutions may specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities with the face value of which is at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. State law does not require security for the public deposits and investments to be maintained in the College's name.

B. Cash on Hand - At June 30, 2012, the College had $16,919 in undeposited cash on hand which is reported as "Cash" on the Statement of Net Assets.

C. Deposits - At June 30, 2012, the reported amount of the College's deposits was $(575,812) and the bank balance was $5,085, which was covered by the FDIC.

D. Investments – As of June 30, 2012, the College had the following investments and maturities:

		Investment Maturity (in years)	
Investment type	Fair Value	1	2 - 5
Insurance reserve	$ 2,754,504	$ 796,280	$ 1,958,224
Business savings	234,077	234,077	-
Repurchase agreement	11,570,000	11,570,000	-
STAR Ohio	11,274,400	11,274,400	-
U.S. Agencies	12,382	4,445	7,937
Corporate notes	27,239	13,314	13,925
Mutual funds – treasury obligations	1,209,731	1,209,731	-
Mutual funds	24,093	24,093	-
Corporate Stock	142,062	142,062	-
	$ 27,248,488	$ 25,268,402	$ 1,980,086

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The College's Investment Policy prohibits the purchase of securities that will mature more than five years from the date of settlement.

3. CASH AND INVESTMENTS (Continued)

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

CS	A+	.04%
CS	A	.04%
CS	AA	.02%
CS	A-	.04%
CS	AA-	.03%
CS	AAA	.01%
CS	BBB+	.02%
CS	BBB	.03%
CS	BBB-	.01%
CS	Not Rated	.28%
U.S. Agencies	AA+	.05%
Mutual Funds	AAf	.05%
Mutual Funds	A-f	.03%
Mutual Funds	BBB+f	.01%
Mutual Funds-Treasury Obligations	AAAm	4.44%
Corporate Notes	A-	.01%
Corporate Notes	AA-	.02%
Corporate Notes	AA+	.03%
Corporate Notes	A+	.03%
Corporate Notes	BBB+	.02%
STAR Ohio	AAAm	41.38%
Repurchase Agreements	Not Rated	42.44%
Insurance Reserve	Not Rated	10.11%
Business Savings	Not Rated	.86%

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

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

Corporate Stock, Corporate Notes, Mutual Funds, U.S. Treasury Notes, U.S. Agencies, – Counterparty

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

STAR Ohio is an investment pool managed by the State Treasurer's Office that allows governments within the State to pool their funds together for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price that is the price that the investment could be sold for on June 30, 2012.

4. CAPITAL ASSETS

A summary of the changes in capital assets and related accumulated depreciation during fiscal year 2012 follows:

	Balance 6/30/2011	Additions	Disposals	Transfers	Balance 6/30/2012
Capital assets not being depreciated:					
Land	$ 5,318,622	$ 277,390	$ -	$ -	$ 5,596,012
Construction in progress	15,500,182	5,653,104	-	(8,063,953)	13,089,333
Software	5,231,542	-	-	-	5,231,542
Total capital assets not being depreciated	26,050,346	5,930,494	-	(8,063,953)	23,916,887
Capital assets being depreciated					
Land Improvements	4,616,545	248,928	-	-	4,865,473
Buildings and leasehold improvements	65,186,340	3,091,037	-	8,063,953	76,341,330
Equipment	6,012,779	553,818	87,441	-	6,479,156
Library books	33,993	-	5,261	-	28,732
Infrastructure	309,310	-	-	-	309,310
Total capital assets	76,158,967	3,893,783	92,702	8,063,953	88,024,001
Less accumulated depreciation for:					
Land Improvements	1,793,287	194,530	-	-	1,987,817
Buildings and leasehold improvements	19,761,965	2,150,423	-	-	21,912,388
Equipment	4,235,411	534,923	87,441	-	4,682,893
Library books	23,046	2,828	5,261	-	20,613
Infrastructure	137,320	14,682	-	-	152,002
Total accumulated depreciation	25,951,029	2,897,386	92,702	-	28,755,713
Capital assets being depreciated, net	50,207,938	996,397	-	8,063,953	59,268,288
Capital assets, net	$ 76,258,284	$ 6,926,891	$ -	$ -	$ 83,185,175

5. LEASES

Stark State College leases buildings and parking lots on a month-to-month basis and under long-term operating lease agreements. Rent expenses totaled $267,772 during the year ended June 30, 2012.

Aggregate future minimum lease payments under these non-cancelable operating lease agreements for the years ending June 30, are as follows:

2013	$ 217,177
2014	159,766
2015	136,370
2016	81,000
2017	81,000
Thereafter	702,000
	$ 1,377,313

5. LEASES (Continued)

Stark State College leases its buildings, equipment and parking lots to companies on the main campus for specific days and under long-term operating lease agreements. The property used for rental purposes under long –term operating lease agreements has an original cost of $11,693,211, and accumulated depreciation of $2,000,044 at June 30, 2012. Rent income totaled $1,084,854 during the year ended June 30, 2012.

Aggregate future minimum lease receipts under these non-cancellable operating lease agreements for the years ending June 30, are as follows:

2013	$ 252,638
2014	45,606
2015	4,200
2016	2,100
	$ 304,544

6. LONG-TERM LIABILITIES

A. Long-term liabilities activity for the year ended June 30, 2012, are summarized as follows:

	Balance 6/302011	Additions	Disposals	Balance 6/30/2012
Capital bond obligations	$ 19,443,994	$ -	$ 807,744	$ 18,636,250
Compensated absences	1,075,332	191,219	-	1,266,551
Total	$ 20,519,326	$ 191,219	$ 807,744	19,902,801
Less current portion:				
Capital bond obligations				813,333
Compensated absences				81,442
Total current portion				894,775
Total long-term liabilities				$ 19,008,026

7. PENSION PLANS

A. State Teachers Retirement System

State Teachers Retirement System of Ohio (STRS Ohio) is a cost-sharing, multiple-employer public employee retirement system.

STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

7. PENSION PLANS (Continued)

Plan Options – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all of their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan 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 DB Plan during their fifth year of membership unless they permanently selected the DC or Combined Plan.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 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 salary years. 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) until 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 Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio’s public colleges 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.

7. PENSION PLANS (Continued)

A retiree of STRS Ohio or another 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 an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

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

The DB and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans 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 DB or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of 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 DB Plan. Death benefit coverage up to $2,000 can be purchased by participants 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 recommendations 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, 2012 were 10% of covered payroll for members and 14% for employers. The College's employer contributions to STRS Ohio for fiscal years ended June 30, 2012, 2011 and 2010 were $3,882,130, $3,453,525, and $3,076,185, respectively.

STRS Ohio issues a stand-alone financial report. Additional information or copies of STRS Ohio's Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Board St., Columbus, OH 43215-3771, by calling toll-free 1-888-227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

B. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans as described below:

1. The Traditional Pension Plan – a cost sharing, multiple-employer defined benefit pension plan.

2. The Member-Directed Plan – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.

3. The Combined Plan – a cost sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

7. PENSION PLANS (Continued)

OPERS provides retirement, disability, survivor and death benefits and annual cost-of living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2012, member and employer contributions were consistent across all three plans.

The 2012 member contribution rate was 10.0%. The 2012 employer contribution rate was 14.0% of covered payroll. The College's employer contributions to OPERS for the fiscal years ended June 30, 2012, 2011 and 2010 were $2,082,122, $1,621,223, and $1,388,370, respectively.

C. <u>Alternative Retirement Plan</u>

Ohio Amended Substitute House Bill 586 (Ohio Revised Code 3305.2) became effective March 31, 1998, authorizing an alternative retirement program for academic and administrative employees of public institutions of higher education, who were currently covered by the Ohio Public Employees Retirement System (OPERS) or the State Teachers Retirement System of Ohio (STRS Ohio). The alternative retirement plan is a defined contribution plan under IRS Section 401(a).

Full-time employees have 120 days from their date of hire to make an irrevocable election to participate in an alternative retirement plan. Under this plan, employees who would have otherwise been required to be in OPERS or STRS Ohio who elect to participate in the alternative retirement program must contribute the employee's share of retirement contributions (10.0% OPERS, 10.0% STRS Ohio) to one of eight private providers approved by the State Department of Insurance. The legislation mandates that the employer must contribute 3.5% of the 14% employer contribution to STRS Ohio and .77% of the 14% employer contribution to OPERS with the remainder being sent to the ARP vendor selected by the employee. The College plan provides these employees with immediate plan vesting. The total employer contributions to the alternative retirement plan for the fiscal years ended June 30, 2012, 2011, and 2010 were $76,066, $83,942, and $82,221, respectively.

8. POST-EMPLOYMENT BENEFITS

A. <u>State Teachers Retirement System</u>

STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan; a self-directed Defined Contribution Plan and a Combined Plan that is a hybrid of the Defined Benefit Plan and the Defined Contribution Plan.

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the heath care costs in the form of a monthly premium.

8. POST-EMPLOYMENT BENEFITS (Continued)

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care for the years ended June 30, 2011, 2010, and 2009. The 14% employer contribution rate is the maximum rate established under Ohio law. The College's employer contributions allocated to post-employment benefits for the fiscal years ended June 30, 2012, 2011 and 2010 were approximately $274,350, $224,252, and $200,715, respectively.

B. Ohio Public Employees Retirement System

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both the defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In fiscal year 2012, employers contributed at a rate of 14.0% of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for state and local employer units. Active members do not make contributions to the OPEB Plan.

8. POST-EMPLOYMENT BENEFITS (Continued)

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0% during calendar year 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar year 2011. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care coverage by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. The College's employer contributions allocated to post-employment benefits for the fiscal years ended June 30, 2012, 2011, and 2010 were approximately $594,656, $551,322, and $544,267, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004 was effective January 1, 2007. Member and employer contribution rates for state and local employees increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

9. CONTINGENCIES

A. Federal and State Grants

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

B. Litigation

There are no claims pending against the College as of June 30, 2012.

10. RISK MANAGEMENT

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

The College is a member of the Stark County Schools Council of Governments, a shared risk pool (see Note 2), which was established to provide a partially self-funded health benefits program to its members. The College pays a monthly premium to the Council of Governments for its health care coverage.

The insurance claims payable of $796,280 is based on the requirements of GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The claims liability is based on an estimate supplied by the Council of Governments. A summary of the claims liability during the past two fiscal years is as follows:

	Beginning Balance	Current Claims	Claims Paid	Ending Balance
Fiscal year 2011	$ 642,953	$ 5,012,486	$ 4,928,655	$ 726,784
Fiscal year 2012	$ 726,784	$ 5,125,836	$ 5,056,340	$ 796,280

11. RELATED ORGANIZATIONS

The Stark State College Foundation (the Foundation) is a not-for-profit organization, which operates under a separate board exclusively for the benefit of the College and is therefore not included in the College's June 30, 2012 financial statements. At June 30, 2012, the total net assets of the Foundation were $2,741,522. During the year ended June 30, 2012, the Foundation contributed $576,216 to the College for scholarships, instructional equipment and supplies and buildings.

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

Board of Trustees
Stark State College
North Canton, Ohio

We have audited the financial statements of the business-type activities of Stark State College (the "College") as of and for the year ended June 30, 2012, which collectively comprise the College's basic financial statements and have issued our report thereon dated December 28, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the College is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

C&P Advisors, LLC
Ciuni & Panichi, Inc.
C&P Wealth Management, LLC

25201 Chagrin Boulevard
Cleveland, Ohio 44122.5683
p. 216.831.7171
f. 216.831.3020
www.cp-advisors.com
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Stark State College

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Trustees, management, the Auditor of State's Office, 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.

Ciuni & Panichi, Inc.

Cleveland, Ohio
December 28, 2012

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Board of Trustees
Stark State College
North Canton, Ohio

Compliance

We have audited Stark State College's (the "College") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the College's major federal programs for the year ended June 30, 2012. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. 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 of the College's compliance with those requirements.

In our opinion, the College complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control over Compliance

Management of the College is responsible for establishing and maintaining effective internal control over compliance with the 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 the requirements that could have a direct and material effect on a major federal program to determine the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

Board of Trustees
Stark State College

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the business-type activities of the College, as of and for the year ended June 30, 2012, and have issued our report thereon dated December 28, 2012, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of the College's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on the College's compliance but not to provide an opinion on the effectiveness of the College's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

Ciuni & Panichi, Inc.

Cleveland, Ohio
December 28, 2012

Stark State College of Technology
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2012

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	FY 2012 Expenses
U.S. Department of Education			
Student Financial Assistance Programs Cluster:			
Federal Work-Study Program	84.033		$ 353,723
Federal Supplemental Educational Opportunity Grants	84.007		367,648
Federal Pell Grant Program	84.063		36,255,984
Federal Direct Student Loans	84.268		81,161,708
Total Student Financial Assistance Programs Cluster			**118,139,063**
TRIO - Student Support Services	84.042		251,651
Upward Bound Math and Science Program	84.047		248,525
Passed Through the Ohio Department of Education:			
Upward Bound Math and Science Program	84.047	063420-SSC UB	3,115
Total Upward Bound Math and Science Program			**251,640**
Fund for the Improvement of Postsecondary Education	84.116		44,126
Passed Through the Ohio Department of Education:			
Vocational Education - Basic Grants to States	84.048	063420-CDP-P-2012	335,788
Passed Through the Ohio Board of Regents:			
Ohio Articulation and Transfer Network (OATN)			
Secondary Career Technical Alignment Initiative	84.048		17,400
Total Federal Assistance - U.S. Department of Education			**119,039,668**
U.S. Department of Energy			
Renewable Energy Research and Development	81.087		99,029
Passed Through the Ohio Department of Development:			
ARRA - Energy Efficiency and Conservation Block Grant Program	81.128	ARRA-EECBG-10-11	166,096
Total Federal Assistance - U.S. Department of Energy			**265,125**
U.S. Department of Labor			
Community Based Job Training Grants	17.269		182,475
U.S. Department of Defense			
Collaborative Research and Development	12.114		571,705
National Science Foundation Program			
Education and Human Resources	47.076		370,183
Passed Through the Ohio State University Research Foundation			
Education and Human Resources	47.076	60014486 & 0703087	44,109
Total Federal Assistance - National Science Foundation			**414,292**

(continued)

The notes to the schedule of federal awards receipts and expenditures are an integral part of this schedule.

Stark State College of Technology
Schedule of Expenditures of Federal Awards (continued)
For the Fiscal Year Ended June 30, 2012

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	FY 2012 Expenses
U.S. Environmental Protection Agency			
Passed Through the City of Canton			
Brownfield Job Training	66.815		142,708
U.S. Small Business Administration			
Congressional Grants	59.059		1,311,739
Total Federal Assistance - All Sources			$ **121,927,712**

The notes to the schedule of federal awards receipts and expenditures are an integral part of this schedule.

STARK STATE COLLEGE
Notes to the Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2012

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

Stark State College

Schedule of Findings
OMB Circular A-133 Section .505

For the Year Ended June 30, 2012

1. Summary of Auditor's Results

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control 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	Student Financial Aid Cluster: CFDA # 84.033, 84.007, 84.063, 84.268 Congressional Grants: CFDA # 59.059
(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 Related to the Financial Statements Required To Be Reported In Accordance With GAGAS

None noted.

3. Findings for Federal Awards

None noted.

Dave Yost • Auditor of State

STARK STATE COLLEGE

STARK COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JANUARY 17, 2013