

Northwest State Community College

Single Audit

July 1, 2005 through June 30, 2006

Fiscal Year Audited Under GAGAS: 2006

BALESTRA, HARR & SCHERER, CPAs, INC.

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**Auditor of State
Betty Montgomery**

Board of Trustees
Northwest State Community College
22600 State Route 34
Archbold, Ohio 43502

We have reviewed the *Independent Auditor's Report* of the Northwest State Community College, Henry County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2005 to June 30, 2006. 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 Northwest State Community College is responsible for compliance with these laws and regulations.

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

BETTY MONTGOMERY
Auditor of State

November 14, 2006

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NORTHWEST STATE COMMUNITY COLLEGE

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

REPORT OF INDEPENDENT ACCOUNTANTS

Board of Trustees
Northwest State Community College
22600 State Route 34
Archbold, Ohio 43502

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Northwest State Community College (the College), as of and for the year ended June 30, 2006, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component unit of the College, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2006 on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Trustees
Northwest State Community College
REPORT OF INDEPENDENT ACCOUNTANTS
Page 2

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

As described in Note 3 to the basic financial statements, the College implemented Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation* and GASB Statement No. 47, *Accounting for Termination Benefits*.



Balestra, Harr & Scherer, CPAs, Inc.
September 28, 2006

NORTHWEST STATE COMMUNITY COLLEGE
HENRY COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

The following discussion and analysis reflects the financial health of Northwest State Community College (the College) and its Foundation. The management of the College has prepared this discussion and analysis and is responsible for the completeness and fairness of the information presented. This paper should be read in conjunction with the accompanying financial statements.

Structure of the Annual Report

This report consists of three financial statements and notes that accompany the statements. The three statements are: Statement of Net Assets, Statement of Revenues, Expenditures and Changes in Net Assets, and the Statement of Cash Flow. Together these statements provide information on the College as a whole. This report addresses all the programs and services generally associated with a College which includes but is not limited to such things as instruction, public service and support services. The college Foundation activities are focused on fundraising to benefit the College's programs and students.

Financial Highlights

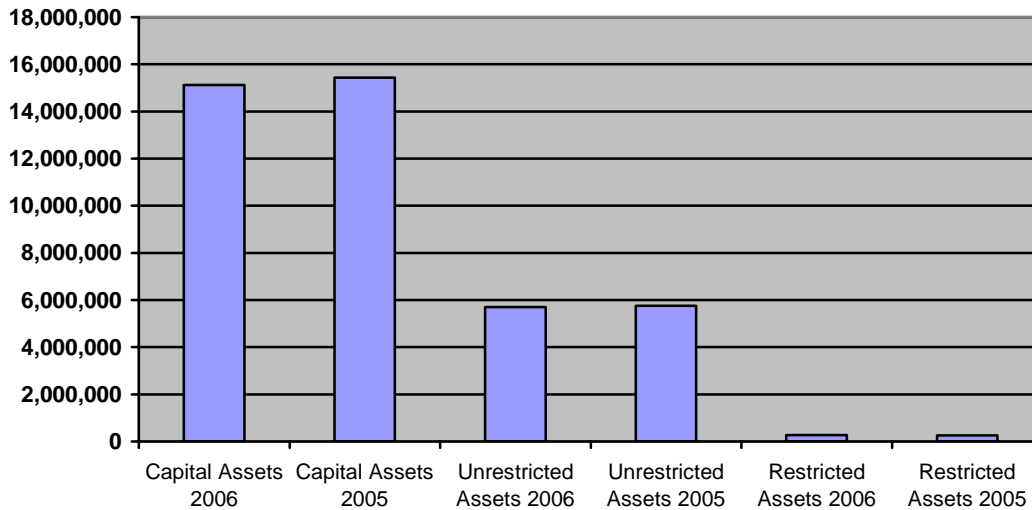
The Statement of Net Assets

<u>Condensed Financial Information</u>		
<u>Statement of Net Assets</u>		
	<u>2006</u>	<u>2005</u>
Assets		
Other Assets	\$8,654,105	\$7,428,226
Capital Assets, Net	<u>15,157,872</u>	<u>15,509,814</u>
Total Assets	23,811,977	22,938,040
Liabilities		
Current Liabilities	2,486,196	1,221,438
Non-current Liabilities	<u>231,852</u>	<u>274,200</u>
Total Liabilities	2,718,048	1,495,638
Net Assets		
Invested in Capital Assets, Net of Related Debt	15,122,278	15,427,813
Restricted	268,278	258,238
Unrestricted	<u>5,703,373</u>	<u>5,756,351</u>
Total Net Assets	<u>\$21,093,929</u>	<u>\$21,442,402</u>

This statement contains the College's assets, liabilities and net assets for the fiscal years 2005 and 2006. The assets and the liabilities are reported using the accrual basis of accounting. The accrual basis allows the College to report the current year's revenues and expenses regardless of when the cash was received or paid out. This method of accounting is similar to the accounting methods used by the private business sector.

NORTHWEST STATE COMMUNITY COLLEGE
HENRY COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
 June 30, 2006

The net assets of a governmental entity represent the entity's ownership in the assets. This graph presents the net assets for the 2006 and 2005 fiscal years. From this presentation, the increases and decreases in the net assets during the fiscal years of 2006 can be observed.



During fiscal year 2006 the College's net assets in total decreased by \$348,473 from \$21,442,402 to \$21,093,929 (1.6 percent decrease). The net assets invested in capital decreased by \$305,535 (1.9 percent) to a total of \$15,122,278; the restricted net assets increased by \$10,040 (3.9 percent) to a total of \$268,278; the unrestricted net assets decreased by \$52,978 (.9 percent) to a total of \$5,703,373.

The assets in the Statement of Net Assets of a governmental entity represent the book value of the items employed by the College in its operations. The current assets increased \$2,877,328 (51.9 percent) for a total of \$8,413,505. Included in this total is a \$2,908,078 increase in cash and cash equivalents, \$172,972 increase in investments, \$186,731 decrease in accounts receivable, \$16,991 decrease in inventories and prepaid expenses.

The non-current assets decreased by \$2,003,391 (11.51 percent) for a total of \$15,398,472. Included in this total is a \$1,637,269 decrease in investments, \$14,180 decrease in accounts receivable from the college's Foundation, and \$351,942 decrease in capital assets. The significant decrease in non-current investments is countered by the significant increase in cash and cash equivalents. As of June 30, 2006 the College's investment with Sky Trust was not fully invested and carried a \$1,346,917 cash balance. During the year the College had invested its available cash in short-term Certificates of Deposit to maximize its earnings.

The liabilities in the Statement of Net Assets of a governmental entity represent the difference between the assets and the net assets. These amounts represent the obligations that the College owed to others. The College's total liabilities increased by \$1,222,410 (81.7 percent) for a total of \$2,718,048. Included in this total is a \$721,802 increase in accounts payable, \$427,457 increase in accrued liabilities, \$46,407 (netted) decrease in capital lease obligations, \$98,810 (netted) increase in compensated absence and a \$20,748 increase in deferred revenues. The increase in accrued liability accounts for a \$402,231 liability created by the implementation of GASB 47. GASB 47 required the College to record the liability in the 2006 fiscal year when the College Board approved voluntary early retirement incentive. This incentive will be paid during fiscal year 2006-2007 from reserves.

**NORTHWEST STATE COMMUNITY COLLEGE
HENRY COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006**

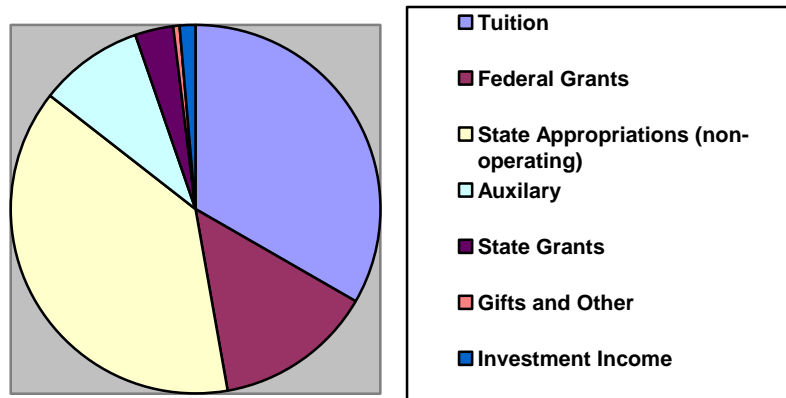
The Statement of Revenues, Expenditures, and Changes in Net Assets

Condensed Financial Information
Statement of Revenues, Expenses and Changes in Net Assets

	<u>2006</u>	<u>2005</u>
Total Operating Revenue	\$12,364,417	\$12,011,669
Total Operating Expense	<u>20,889,973</u>	<u>20,096,063</u>
Operating Loss	(8,525,556)	(8,084,394)
Non-Operating Revenues/Expenses	8,074,187	8,147,194
Income Before Other Revenues, Gains and Losses	(451,369)	62,800
Total Other Revenue, Expenses, Gains or Losses	<u>102,896</u>	<u>1,171,393</u>
Increase/(Decrease) in Net Assets	(348,473)	1,234,193
Net Assets, Beginning of Year	<u>\$21,442,402</u>	<u>\$20,208,209</u>
Net Assets, End of Year	<u>\$21,093,929</u>	<u>\$21,442,402</u>

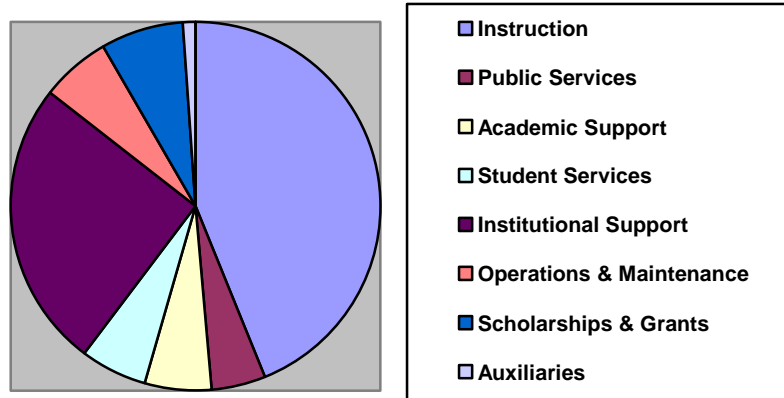
The statement reflects the various income and expense account balances for the 2005 and 2006 fiscal years. The following charts present a visual breakdown of the College's revenues and expenses divided into major categories. These graphs do not include the College's Foundation.

Revenues:



**NORTHWEST STATE COMMUNITY COLLEGE
HENRY COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006**

Expenses:



The significant changes in the revenues between fiscal years 2005 and 2006 are stated below along with the rationale for the changes. These changes include both the restricted and the unrestricted accounts:

* Total operating revenues increased by \$352,748 (2.9 percent).

* Tuition and fees (net of scholarships) increased from \$6,294,097 to \$6,849,645 which represents an increase of \$555,548, an increase of 8.9 percent. The explanation for the increase is a tuition increase from \$118 to \$122, an increase of 3.3% per credit hour and an additional 2,805 credit hours.

*The non-operating revenue line identified as the state appropriations decreased by \$179,136 (2.2 percent). Even though the College's enrollment increased, the student credit hour mix changed with a higher percentage of the students enrolled in lower level subsidy courses.

*The investment income increased by \$96,747 (59.1 percent). This number reflects the higher returns in the Sky Trust Investment account and the current Certificate of Deposits.

*The other operating revenues decreased by \$154,833 (64.8 percent). This was created by the outsourcing of the child care center.

The significant changes in the expenses between fiscal years 2005 and 2006 are stated below along with the rationale for the changes. These changes include both the restricted and the unrestricted accounts.

* The total operating expenses increased by \$739,910 (3.9 percent).

* The largest dollar increase in operating expenses was in instructional costs. The expenses in this area increased by \$652,422 (8.9 percent). In this increase is \$442,000 created by an increase on the base, step increase, retirement for the professional contract and an additional \$210,422 represents the implementation of GASB 47.

NORTHWEST STATE COMMUNITY COLLEGE
HENRY COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

* The next largest dollar increase was in the institutional support. The amount expense increased by \$501,847 (12.2 percent). This increase represents the implementation of GASB 47 and the hiring of additional administrative personnel.

*The amount being spent for Public Service decreased by \$478,354 (35 percent) was created by a growth in the College serving as the fiscal agent for GM/UAW training. These amounts are recorded as gross income and expense numbers with the College netting only the 12% fiscal agent fee. Offsetting this gain was a significant decrease in the cost the College incurred by leasing the childcare service.

*Scholarships and grants increased by \$260,079 (24.7 percent). This increase was generated by the growth in the scholarship programs including the Tech Prep dual enrollment program.

Northwest State Community College ended the year with a decrease in net assets of \$348,473.

The Statement of Cash Flows

The statement of Cash Flows provides another way to assess the financial health of the institution by studying the sources and uses of cash during the fiscal year. These sources and uses of cash are divided into three areas: operations, financing and investing.

The Statement of Cash Flows			
	2005-06	2004-05	Change
Cash flows from operating activities	\$(6,122,701)	\$(7,518,670)	\$1,395,969
Net cash used by operating activities			
Cash flows from non-capital financing	7,817,485	7,991,827	(174,342)
Net cash provided by non-capital financing activities			
Cash flows from capital fin. activities	(511,578)	(1,036,566)	524,988
Net cash used by capital fin. activities			
Cash flows from investing activities	1,724,872	(1,353,937)	3,078,809
Beginning Balance	\$1,449,505	\$3,366,851	\$(1,917,346)
Ending Balance	\$4,357,583	\$1,449,505	\$2,908,078

NORTHWEST STATE COMMUNITY COLLEGE
HENRY COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

The primary sources of cash were tuition and fees, grants and contracts and federal financial aid. The other major source of income, although not considered cash from operations is the state subsidy amount. During 2006, the College received a decrease of \$179,136 (2.2 percent decrease) in state subsidy. With the current conditions in the state of Ohio this funding source will continue to decrease in the coming years. In response to this and other concerns, the College must anticipate less funding per student from the state to fund future growth of the College. The College has leased out the Childcare facility and the Board approved a 5.8% tuition increase that began summer of 2006. This increase raised the tuition from \$122 per credit hour to \$129 which is a 5.7 percent increase.

The primary use of cash was for the support of the operating activities of the College. These activities consist of paying salary and benefits for faculty, staff and administration, payments to suppliers and operational expenses.

Capital Assets

Capital assets, net of accumulated depreciation, totaled \$15,157,872 at June 30, 2006, a net decrease of \$351,942 from the prior year-end. Additions to capital assets during the year totaled \$629,852 and disposals totaled \$359,049. Depreciation expense for the year ended June 30, 2006 amounted to \$962,543. More detailed information about the College's capital assets is presented in note 8 to the financial statements.

Debt

As of June 30, 2006, the College's only long-term liabilities were capital leases and compensated absences payable. The College had no debt outstanding at fiscal year end 2006 or 2005. More detailed information about the College's long-term liabilities is presented in note 9 to the financial statements.

Economic factors that will affect the future:

The College has completed the second year of a four year implementation of a new Banner administrative software computing system. In the third and fourth year of the project an additional \$1,640,000 is estimated to be spent on this project.

The College Trustees approved the expansion of the College to Metamora and Defiance Ohio. The prior Metamora school building has been purchased and the College is currently reviewing plans to renovate the facilities at a cost of \$2,200,000 over the next 18 months. Of this amount the state of Ohio has committed \$400,000, approximately \$100,000 has been donated and the remaining amount will be lent to the Metamora campus at an interest rate comparable to the return received on the investment portfolio invested with Sky Trust. The Defiance site is located at the Defiance Medical Center and is leased from that facility at a cost of \$12,000 per year.

The College lost a training contract with the IBEW of Rossford, Ohio that will create a loss of approximately \$240,000 during the next fiscal year and \$480,000 in the second fiscal year.

In February, 2006 the College adopted an Early Retirement Incentive program which is effective February 16, 2006 through February 15, 2007. This program is reported as a current liability in the 2006 fiscal year as required with the implementation of GASB 47, *Accounting for Termination Benefits*.

**Northwest State Community College
Henry County
Statement of Net Assets
June 30, 2006**

	<u>Primary Institution</u>	<u>Component Unit</u>
	<u>Northwest State CC</u>	<u>Northwest State Foundation</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 4,357,583	\$ 252,218
Investments	2,626,682	-
Accounts receivable, net	1,224,635	71,902
Inventories	204,605	
Total current assets	<u>8,413,505</u>	<u>324,120</u>
Noncurrent Assets		
Restricted cash and cash equivalents	-	524,159
Investments	198,064	8,747
Accounts receivable (from NSCC FDA)	42,536	
Capital assets, net	15,157,872	
Total noncurrent assets	<u>15,398,472</u>	<u>532,906</u>
Total assets	<u>\$ 23,811,977</u>	<u>\$ 857,026</u>
LIABILITIES		
Current Liabilities		
Accounts payable	891,320	14,180
Accrued liabilities	432,101	
Capital lease obligation	10,345	
Compensated absences	639,427	
Deferred revenue	513,003	
Total current liabilities	<u>2,486,196</u>	<u>14,180</u>
Noncurrent Liabilities		
Accounts payable (from NSCC FDA)	-	42,536
Capital lease obligation	25,249	
Compensated absences	206,603	
Total noncurrent liabilities	<u>231,852</u>	<u>42,536</u>
Total liabilities	<u>\$ 2,718,048</u>	<u>\$ 56,716</u>
NET ASSETS		
Invested in capital assets, net of related debt	15,122,278	-
Restricted for		
Nonexpendable		
Scholarships and grants	-	534,799
Expendable		
Scholarships and grants	6,665	48,499
Departmental use	-	16,783
Loans	-	101,916
Capital projects	261,613	99,879
Other	-	4,946
Unrestricted	<u>5,703,373</u>	<u>(6,512)</u>
Total net assets	<u>\$ 21,093,929</u>	<u>\$ 800,310</u>

See accompanying notes to the financial statements

**Northwest State Community College
Henry County
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2006**

	Primary Institution	Component Unit
	Northwest State CC	Northwest State Foundation
REVENUES		
Operating Revenues		
Tuition, fees, and other student charges (net of scholarship allowances of \$2,454,222)	\$ 6,849,645	\$ -
Federal grants and contracts	2,831,422	-
State grants and contracts	683,429	-
Nongovernmental gifts and grants	1,040	-
Contributions and fund raising	34,233	124,168
Auxiliary enterprises		-
Food service	308,526	-
Bookstore (net of scholarship allowances of \$304,328)	1,572,169	-
Other operating revenues	83,953	-
Total revenue	<u>\$ 12,364,417</u>	<u>\$ 124,168</u>
EXPENSES		
Operating Expenses		
Education and General		
Instruction	7,958,739	-
Public service	878,787	-
Academic support	1,050,720	-
Student services	1,060,753	-
Institutional support	4,584,123	20,603
Operation and maintenance of plant	1,098,746	-
Scholarships and grants	1,311,566	21,402
Total educational and general	<u>17,943,434</u>	<u>42,005</u>
Auxiliary enterprises	1,983,996	-
Depreciation	962,543	-
Total operating expenses	<u>\$ 20,889,973</u>	<u>\$ 42,005</u>
Operating gain (loss)	<u>\$ (8,525,556)</u>	<u>\$ 82,163</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	7,812,691	-
Investment Income (net of investment expense)	260,575	21,137
Interest of capital asset - related debt	(3,873)	-
NSCC Foundation Payments to NSCC	4,794	(4,794)
Net nonoperating revenue (expenses)	<u>\$ 8,074,187</u>	<u>\$ 16,343</u>
Income (loss) before other revenues, expenses, gains or losses	<u>\$ (451,369)</u>	<u>\$ 98,506</u>
State capital appropriations	110,633	-
Loss on disposal of assets	(7,737)	-
Increase/Decrease in net assets	<u>\$ (348,473)</u>	<u>\$ 98,506</u>
NET ASSETS		
Net assets - beginning of year	21,442,402	701,804
Net assets - end of year	<u>\$ 21,093,929</u>	<u>\$ 800,310</u>

See accompanying notes to the financial statements

**NORTHWEST STATE COMMUNITY COLLEGE
HENRY COUNTY
STATEMENT OF CASH FLOWS
June 30, 2006**

	Primary Institution Northwest State CC
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	\$ 6,772,349
Grants and contracts	3,788,365
Contributions and fund raising	34,233
Payments to suppliers	(4,954,170)
Payments for utilities	(505,578)
Payments to employees	(8,587,791)
Payments for benefits	(3,340,133)
Payments for scholarships and grants	(1,321,104)
Auxiliary enterprise	
Food service	308,526
Bookstore	1,619,875
Other receipts (payments)	62,727
Net cash used by operating activities	(6,122,701)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	7,812,691
NSCC Foundation Payments to NSCC	4,794
Net cash provided by noncapital financing activities	7,817,485
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Capital appropriations	110,633
Purchases of capital assets	(618,338)
Interest paid on capital debt and leases	(3,873)
Net cash used by capital financing activities	(511,578)
CASH FLOWS FROM INVESTING ACTIVITIES	
Sale of investments	1,464,297
Interest on investments	260,575
Net cash provided by investing activities	1,724,872
Net increase in cash and cash equivalents	2,908,078
Cash - beginning of year	1,449,505
Cash - end of year	\$ 4,357,583
Reconciliation of net operating revenue (expenses) to net cash used by operating activities:	
Operating loss	\$ (8,525,556)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation expense	962,543
Change in assets and liabilities	
Receivables, net	200,911
Inventories	13,261
Prepaid expenses	3,730
Accounts payable	1,102,852
Compensated absences	98,810
Deferred revenue	20,748
Net cash provided by operating activities	\$ (6,122,701)

See accompanying notes to the financial statements

NORTHWEST STATE COMMUNITY COLLEGE
HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 1 – REPORTING ENTITY

Northwest State Community College (College) is a body, politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

Northwest State Community College was chartered on May 13, 1994, as a State Community College under Section 3358.02 of the Ohio Revised Code. Prior to that date the entity was operated as Northwest Technical College under a charter dated February 1, 1972, as a State Technical College under section 3357.02 of the Ohio Revised Code. The College is a component unit of the State of Ohio and therefore, is included in its Comprehensive Annual Financial Report (CAFR).

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

The College was organized for the principal purpose of offering educational programs beyond high school, normally not exceeding two year's duration, and leading to the award of an associate degree. The College thus offers programs in the liberal arts and sciences, in technical training, and in adult and continuing education, as outlined in Section 3358 of the Ohio Revised Code.

Northwest State Community College Foundation (Foundation) is a legally separate, tax-exempt organization supporting Northwest State Community College. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the College in support of its programs. The board of the Foundation is self-perpetuating and consists of graduates, community members and friends of the college. The majority of resources, or income thereon that the Foundation holds and invests are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the College, the Foundation is considered a component unit of the College and is discretely presented in the College's financial statements.

During the year ended June 30, 2006, the Foundation made distributions of \$4,794 to or on behalf of the College for both temporarily restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Business Office at 22600 State Route, Archbold, Ohio 43502. Specific disclosures relating to the component unit can be found in Note 17.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – For Public Colleges and Universities* effective for the College's year ended June 30, 2006, the full scope of the College's activities is considered to be a single business-type activity (BTA) and accordingly, is reported within a single column in the basic financial statements.

Fiduciary funds, however, are not included in the accompanying financial statements. The College's only fiduciary fund is the agency fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Northwest State maintains an agency fund for the NSCC Student Body Organization & the NSCC Alumni. At June 30, 2006, the amounts held for the NSCC Student Body Organization & the NSCC Alumni are \$8,114.89 and \$890.11, respectively.

NORTHWEST STATE COMMUNITY COLLEGE
HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Foundation is a nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. With the exception of the necessary presentation adjustments, no modifications have been made to the Foundation's financial information in the College's financial report for these differences.

B. Basis of Accounting

The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

C. Cash and Cash Equivalents

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

D. Investments

Investments when purchased are stated at cost and, if received through gift, at market value at the date of gift if a market value is available; otherwise, they are stated at an appraisal or nominal value.

E. Receivables

Receivables consist of tuition and fees, charges to students, and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the Federal government, state and local governments, private sources in connections with reimbursement of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource providers condition have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

F. Inventories

Inventories, consisting of expendable supplies and merchandise for resale, are stated at the lower of cost or market value using the first-in, first-out method.

G. Capital Assets

Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of one or more years. Library books are significant in the aggregate and are therefore also capitalized.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 75 years for infrastructure, 10 to 50 years for buildings, and 3 to 15 years for equipment.

NORTHWEST STATE COMMUNITY COLLEGE
HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Restricted Assets

Restricted assets represent assets whose use is restricted by external parties or by law through constitutional provisions or enabling legislation.

I. Noncurrent Long-Term Liabilities

Noncurrent long-term liabilities include capital lease obligations and compensated absences that will not be paid within the next fiscal year.

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the College will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent it is probable that benefits will result in termination payments. The liability is based on the College's past experience of making termination payments.

When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method.

K. Deferred Revenue

In accordance with the State of Ohio policy of recording instructional revenues in the year in which the courses are principally conducted, the College defers certain revenues at June 30 that are applicable to courses conducted subsequent to June 30.

L. Net Assets

The College's net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt – This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

Restricted Net Assets – Nonexpendable – Nonexpendable restricted net assets include endowments and similar type assets whose use is limited by donors or other outside sources and as a condition of the gift, the principal is to be maintained in perpetuity.

Restricted Net Assets – Expendable – Expendable restricted net assets include resources in which the College is legally or contractually obligated to spend the resources in accordance with restrictions imposed by external parties.

Unrestricted Net Assets – Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the department management system in place at the College. Of the \$268,278 of restricted net assets, none is restricted by enabling legislation.

NORTHWEST STATE COMMUNITY COLLEGE
HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Scholarship Allowances

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

N. Revenue and Expense Recognition

The College presents its revenues and expenses as operating or non-operating based on recognition definitions from GASB statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating activities are those activities that are necessary and essential to the mission of the College. Operating revenues include all charges to customers, grants received for student financial assistance, and interest earned on loans. Grants received for student financial assistance are considered operating revenues because they provide resources for student charges and such programs are necessary and essential to the mission of the College. Revenues from non-exchange transactions and state appropriations that represent subsidies or gifts to the College, as well as investment income, are considered non-operating since these are either investing capital or non-capital financing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor non-operating activities and are presented after non-operating activities on the accompanying statement of Revenues, Expenses, and Changes in Net Assets.

O. Budgetary Process

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

P. Income Taxes

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

Q. Use of Estimates

Management of the College has made estimates and assumption relating to the reporting of assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

R. Component Unit Reporting

The College includes the Northwest State Community College Foundation as a discretely presented component unit in the College's financial statements as a result of the implementation of GASB Statement No. 39 for the fiscal year ended June 30, 2004.

NORTHWEST STATE COMMUNITY COLLEGE
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NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLE

The College implemented Governmental Accounting Standard Number 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* and Governmental Accounting Standard Number 46, *Net Assets Restricted by Enabling Legislation*. Neither implementation of GASB 42 or GASB 46 had an impact on the College's financial statements.

The College implemented Governmental Accounting Standard Number 47, *Accounting for Termination Benefits*. Accordingly, \$548,048 of termination benefits were reported as of June 30, 2006 of which \$145,717 were expensed during the year and \$402,331 is a current liability for future retirements that the College has recognized will happen between July 1, 2006 and May 1, 2007. The College adopted an Early Retirement Incentive program which is effective Feb 16, 2006 through Feb. 15, 2007 for the purchase of two years of service time with the stipulation that all retirements under this plan must take place by May 15, 2007 therefore all liabilities are current in nature for fiscal year ended June 30, 2006. The undiscounted future benefit payments were estimated using 2005 gross wage rates.

NOTE 4 – STATE SUPPORT

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

In addition to state share of instructional costs, the State of Ohio provides funds for basic renovations of the College facilities. In the past the State has provided funding for construction of major plant facilities on the College campus; however, a policy change at the State level has required the College to repay the State funds used from the College funds. Due to this policy change, the College is less able to rely on State funds to construct facilities. In the event that the State does contribute to a building project, the State's portion of the funding is obtained from the issuance of revenue bonds by the Ohio Public Facilities Commission, which in turn causes the construction and subsequent lease of the facility by the Ohio Board of Regents.

As a result of the above described financial assistance provided by the state of Ohio to the College, outstanding debt issued by the Ohio Public Facilities Commission is not included on the College's Statement of Net Assets. In addition, the appropriation by the Board of Regents for payment of debt service are not reflected as appropriation revenue received by the College, and the related debt service payments are not recorded in the College's accounts.

NOTE 5 – DEPOSITS AND INVESTMENTS

Legal Requirements

Statutes require the classification of moneys held by the College into three categories. Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the College Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

NORTHWEST STATE COMMUNITY COLLEGE
HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 5 – DEPOSITS AND INVESTMENTS (CONTINUED)

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

Regulations permit interim monies to be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligations or securities issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies of instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

At fiscal year end, the College had \$2,947 in undeposited cash on hand, which is included on the Statement of Net Assets of the College as part of cash.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, *Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements*.

**NORTHWEST STATE COMMUNITY COLLEGE
HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006**

NOTE 5 – DEPOSITS AND INVESTMENTS (CONTINUED)

Cash and Investments

In accordance with Statement No. 3 of the Government Accounting Standards Board, cash deposits are categorized to give an indication of the level of risk assumed by the College. The categories are as follows:

- Category 1 - Insured or collateralized with securities held by the College or by its agent in the College's name.
- Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the College's name.
- Category 3 - Uncollateralized (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the College's name.)

As of June 30, 2006:

Carrying Amount	Bank Balance	<u>Balance per Bank Risk Category</u>		
		1	2	3
\$ 4,357,583	\$ 5,281,374	\$ 5,281,374	\$ 0	\$ 0

The difference between cash carrying amount and bank balance represents normal reconciling items (outstanding checks, cash on hand, and deposits in transit). Of the total cash in the bank accounts \$3,934,457 was held in demand accounts, \$1,346,917 was held in Federated US Treasury Cash #632.

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

- Category 1 - Investments that are insured or registered, or for which securities are held by the College or its agent in the name of the College.
- Category 2 - Investments that are uninsured and unregistered, with securities held by the broker's trust department or agent in the College's name.
- Category 3 - Investments that are uninsured and unregistered, with the securities held by the broker or dealer, or by its trust department or agent, but not in the College's name.

NORTHWEST STATE COMMUNITY COLLEGE
HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 5 – DEPOSITS AND INVESTMENTS (CONTINUED)

The College's fair value and distribution of investments as of June 30, 2006 are as follows:

<u>Investments- Category 2</u>	<u>Market Value</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
Federal Home Loan Mtge Corp.	\$ 198,796	09/29/06	3.000%
Federal Home Loan Mtge Corp.	198,064	07/18/07	4.560%
Federal Home Loan Bank	247,384	01/10/07	3.450%
Federal Home Loan Bank	346,117	03/30/07	4.020%
Federal Home Loan Bank	247,226	03/30/07	4.000%
Federal Home Loan Bank	297,564	11/13/06	3.160%
Federal National Mtge Assoc	298,735	01/02/07	4.750%
Federal National Mtge Assoc	247,149	12/29/06	3.125%
Federal National Mtge Assoc	247,735	11/24/06	3.050%
Federal National Mtge Assoc	248,164	10/27/06	3.110%
Federal National Mtge Assoc	<u>247,812</u>	11/09/06	2.875%
 Total	 \$2,824,746		

The classification of cash and cash equivalents and investments on the Statement of Net Assets is based on criteria set forth in GASB Statement No. 9, *Reporting Cash Flows Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. Cash and cash equivalents are defined as investments with original maturities of three months or less and funds held as part of the College's cash management pool. No differences exist between classifications on the Statement of Net Assets and the classification of deposits and investments presented per GASB Statement No. 3 and therefore, no reconciliation is presented.

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 has a formal investment policy that authorizes to make investments of available monies in securities authorized by State law.

Credit Risk- Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation.

At June 30, 2006, the College's investments in US Treasury Obligations were rated AAA by Standard & Poor's.

NORTHWEST STATE COMMUNITY COLLEGE
HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 5 – DEPOSITS AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk- Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer.

The investment policy places no limit on the amount the College may invest in any one issuer. The entire amount of the investment balance is in US Treasury Obligations.

Custodial Credit Risk- For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. For deposits, custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it.

At June 30, 2006, none of the College’s deposits were exposed to custodial credit risk.

NOTE 6 – RECEIVABLES

Receivables at June 30, 2006 were as follows:

	Gross Receivables	Allowance For Doubtful Accounts	Net Receivables
Current Receivables:			
Students	\$ 401,838	\$ (61,306)	\$ 340,532
Pledges	14,180	-	14,180
Intergovernmental	795,236	-	795,236
Other	74,687	-	74,687
Total Current Receivables	1,285,941	(61,306)	1,224,635
Non-current Receivables:			
Pledges	42,536	-	42,536
Total Accounts Receivable:	\$ 1,328,477	\$ (61,306)	\$ 1,267,171

NOTE 7 – DONOR RESTRICTED ENDOWMENTS

If a donor has not provided specific instructions, state law permits the Board to authorize for expenditure the new appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the Board is required to consider the College’s “long- and short-time needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions”. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established. All expenditures must be approved by the Board.

At June 30, 2006, there was no net appreciation on donor restricted assets available to be spent.

NORTHWEST STATE COMMUNITY COLLEGE
HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 8 – CAPITAL ASSETS

A summary of changes in the capital assets is presented as follows:

	Balance June 30, 2005	Increases	Decreases	Balance June 30, 2006
Capital Assets, Non-Depreciable:				
Land	\$ 176,657	\$ -	\$ -	\$ 176,657
Construction in Progress	60,731	32,139	(58,576)	34,294
Library Books	609,731	29,217	(2,938)	636,010
Art/Collections	1,127,355	-	-	1,127,355
Total Non-Depreciable	1,974,474	61,356	(61,514)	1,974,316
Capital Assets, Depreciable:				
Buildings	18,915,287	-	-	18,915,287
General Infrastructure	1,607,054	431,882	-	2,038,936
Machinery and Equipment	2,559,163	138,088	(322,792)	2,374,459
Motor Vehicles	119,110	57,102	(33,319)	142,893
Totals	23,200,614	627,072	(356,111)	23,471,575
Less Accumulated Depreciation:				
Buildings	(7,115,947)	(647,305)	-	(7,763,252)
General Infrastructure	(946,707)	(61,814)	-	(1,008,521)
Machinery and Equipment	(1,500,286)	(234,269)	306,479	(1,428,076)
Motor Vehicles	(102,334)	(19,155)	33,319	(88,170)
Totals	(9,665,274)	(962,543)	339,798	(10,288,019)
Total Capital assets, depreciable, net	13,535,340	(335,471)	(16,313)	13,183,556
Capital Assets, net	\$15,509,814	\$ (274,115)	\$(77,827)	\$ 15,157,872

NOTE 9 – LONG-TERM LIABILITIES

A summary of changes in long-term liabilities is as follows:

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Current Portion
Capital Lease Payable	\$ 82,001	\$ 0	\$ 46,407	\$ 35,594	\$ 10,345
Compensated Absences	747,220	98,810	-	846,030	639,427
Total Long-term Liabilities	\$ 829,221	\$ 98,810	\$ 46,407	\$ 881,624	\$649,772

Additional information regarding capital lease obligations is included in Note 10.

NORTHWEST STATE COMMUNITY COLLEGE
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NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 10 – LEASE OBLIGATIONS

Capital Lease Obligations – Capital lease obligations relating to various forms of equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2006:

Fiscal Year	Amount
Ending June 30, 2006	
2007	\$ 12,864
2008	11,200
2009	11,200
2010	5,600
Total minimum lease payments	40,864
Amount representing interest	(5,270)
Present Value of Future Lease Payments	\$ 35,594

Leased assets amount to \$189,441 at June 30, 2006 all of which is movable equipment.

Operating Lease Obligations – Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2006:

Fiscal Year	Amount
Ending June 30, 2006	
2007	\$ 36,226
2008	17,984
2009	5,208
2010	5,208
2011	1,302
	\$ 65,928

Rental expenses for all operating leases during the year was \$37,469.

NOTE 11 – OPERATING EXPENSES BY FUNCTION AND NATURAL CLASS

	Salaries And Benefits	Scholarships And Fellowships	Utilities	Supplies And other Services	Depreciation	Total
Instruction and departmental research	\$7,214,243	\$ -	\$ -	\$ 744,496	\$ -	\$7,958,739
Public service	302,638			576,149		878,787
Academic Support	367,902			682,818		1,050,720
Student Services	934,930			125,823		1,060,753
Institutional Support	2,834,586		46,215	1,703,322		4,584,123
Operations and Maintenance	508,282		459,363	131,101		1,098,746
Scholarships and grants		1,311,566				1,311,566
Auxiliary enterprises	388,518			1,595,478		1,983,996
Depreciation					962,543	962,543
Totals	\$12,551,099	\$1,311,566	\$ 505,578	\$5,559,187	\$ 962,543	\$20,889,973

NORTHWEST STATE COMMUNITY COLLEGE
HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 12 – PENSION AND RETIREMENT PLANS

The employees of the Northwest State Community College are covered by the School Employees Retirement System of Ohio (SERS), the State Teachers Retirement System of Ohio (STRS) or an Alternative Retirement Plan (ARP). The State of Ohio accounts for the activities of the SERS and STRS systems and amounts of these funds are not reflected in the accompanying financial statements.

School Employees Retirement System

The College contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System issues a publicly available stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800)878-5853. It is also posted on SERS' website, www.ohsers.org, under Forms and Publications.

Plan members are required to contribute 10 percent of their annual covered salary and the College is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll for fiscal year 2006. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by SERS's Retirement Board. The College's required contributions for the fiscal years ended June 30, 2006, 2005, and 2004 were \$422,494, \$414,900, and \$401,928, respectively, equal to the required contributions for each year.

State Teachers Retirement Fund

The College contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board.

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

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 their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined 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, generally on a biweekly basis. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

NORTHWEST STATE COMMUNITY COLLEGE
HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 12 – PENSION AND RETIREMENT PLANS (CONTINUED)

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 for 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 Section 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 amount 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.

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. Effective April 11, 2005 a reemployment retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

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

The Defined Benefit 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.

NORTHWEST STATE COMMUNITY COLLEGE
HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 12 – PENSION AND RETIREMENT PLANS (CONTINUED)

A Defined Benefit 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 Defined Benefit 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 recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2005, were 10% of covered payroll for members and 14% for employers. The College's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2006, 2005 and 2004 were \$751,848, \$729,743, and \$696,881, respectively. Member and employer contributions actually made for Defined Contribution and Combined Plan participants will be provided upon written request.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio's *Comprehensive Annual Financial Report* is available. Additional information or copies of may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (614)227-4090 or by visiting the STRS Ohio web site at www.strsoh.org.

Alternative Retirement Plan

Ohio Amended Substitute House Bill 586 (Ohio Revised Code 3305.2) became effective March 31, 1998, authorizing an alternative retirement system for academic and administrative college employees of public institutions of higher education, who are currently covered by the School Employees Retirement System or State Teachers Retirement System. The College board of trustees adopted such plan effective March 1, 1999. This plan is defined contribution plan under IRS section 401(a).

Eligible employees (those who are full-time and salaried) have 120 days from their date of hire to make an irrevocable election to participate in the alternate retirement plan. Under this plan, employees who would have otherwise been required to be in SERS or STRS and who elect to participate in the alternate retirement program must contribute the employee's share of retirement contributions (10% SERS, 10% STRS) 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 the State Teachers Retirement System (STRS) with the remainder being sent to the ARP vendor selected by the employee and beginning August 1, 2005 6% of the 14 % employer contribution will be sent to the School Employees Retirement Systems (SERS) 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 years ended June 30, 2006, 2005 and 2004 were \$58,785, \$56,314 and \$32,987 respectively.

NOTE 13 – POST-EMPLOYMENT BENEFITS

The College provides access to comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both Systems are on a pay-as-you-go basis.

STRS provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums.

NORTHWEST STATE COMMUNITY COLLEGE
HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 13 – PENSION AND RETIREMENT PLANS (CONTINUED)

Pursuant to the Revised Code (R.C.), the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio.

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

The Retirement board currently allocates employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund from which payments for health care benefits are paid. For the College, this amount equaled \$53,703 during the 2006 fiscal year. The balance in the Health Care Reserve Fund was \$3.3 billion at June 30, 2005. For the year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000. There were 115,395 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2005, (the latest information available), the allocation rate was 3.43%. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. Net health care costs for the year ending June 30, 2005 were \$178,221,113. The target level for the health care fund is 150% of the projected claims less premium contributions for the next fiscal year. For the College, this amount to fund health care benefits, including surcharge, equaled \$193,255 during the 2006 fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168% of next years' projected net health care cost of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of the estimated annual net claim costs. The number of participants eligible to receive health care benefits is 58,123.

NOTE 14 – LEGAL COMPLIANCE

Pursuant to Section 117.11(a) of the Ohio Revised Code, the Independent Public Accountant (IPA) performed tests of compliance with various provisions of local, state, and/or federal laws, as appropriate. The tests disclosed no instances of non-compliance. Material adjustments, with which College officials agree, have been posted to the books of account and such adjustments are reflected in the accompanying financial statements.

NOTE 15 – RISK MANAGEMENT

The College maintains comprehensive insurance coverage with private carriers for liability, real property, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. In addition, real property contents are 90 percent coinsured.

There has been no significant reduction in insurance coverages from coverages in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NORTHWEST STATE COMMUNITY COLLEGE
HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 15 – RISK MANAGEMENT (CONTINUED)

The College participates in the Northern Buckeye Education Council Employee Insurance Benefits Program (the Program), a public entity shared risk pool consisting of school districts within Defiance, Fulton, Henry, and Williams Counties and other eligible governmental entities. The College pays monthly premiums to the Northern Buckeye Education Council for the benefits offered to its employees, which includes health, dental, and life insurance plans. Northern Buckeye Educational Council is responsible for the management and operations of the program. The agreement for the Program provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Program, a participant is responsible for any claims not processed and paid and any related administrative costs.

The College participates in the Northern Buckeye Educational Council Workers' Compensation Group Rating Plan (the Plan), and insurance purchasing pool. The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participating districts is calculated as one experience and common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual.

Participation in the Plan is limited to educational entities that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis, and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement.

NOTE 16 – GROUP PURCHASING POOLS

Northern Buckeye Education Council Employee Insurance Benefits Program (the Pool) is a public entity shared risk pool consisting of educational entities located in Defiance, Fulton, Henry, and Williams counties. The Pool is governed by the Northern Buckeye Education Council and its participating members. Total disbursements made by the College to NBEC for employee insurance benefits during this fiscal year were \$1,331,161. Financial information can be obtained from Northern Buckeye Educational Council, Robin Pfund, who serves as treasurer, at 22900 State Route 34, Archbold, Ohio 43502.

The College participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers' Compensation Group Rating Plan (WCGRP) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The WCGRP is governed by the Northern Buckeye Education Council and the participating members of the WCGRP. The Executive Director of the NBEC coordinates the management and administration of the program. During this fiscal year, the College paid a membership fee of \$250 to the WCGRP to cover the costs of administering the program.

NOTE 17 – COMPONENT UNIT DISCLOSURES – NORTHWEST STATE COMMUNITY COLLEGE FOUNDATION

NATURE OF ACTIVITIES – Northwest State Community College Foundation (the Organization) exists to provide financial assistance to the educational programs, services and facilities of Northwest State Community College. To that end, the Organization solicits inter vivos and testamentary gifts.

BASIS OF ACCOUNTING – The financial statements of Northwest State Community College Foundation have been prepared on the accrual basis and accordingly reflect all significant receivables, payables and other liabilities.

NORTHWEST STATE COMMUNITY COLLEGE
HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 17 – COMPONENT UNIT DISCLOSURES – NORTHWEST STATE COMMUNITY COLLEGE FOUNDATION (CONTINUED)

BASIS OF PRESENTATION – Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*.

With the exceptions of the necessary presentation adjustments to conform to the College's GASB reporting format, no modifications have been made to the Foundation's financial information in the College's financial report.

CASH AND CASH EQUIVALENTS – For purposes of the statement of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to cash equivalents. Cash and cash equivalents for purposes of the statement of cash flows exclude donor restricted cash and cash equivalents.

DONATED SERVICE AND FACILITIES – The Organization has no employees or property (other than cash and investments). Substantially all clerical and management duties are presently performed by business office personnel who are employees of Northwest State Community College, utilizing equipment and facilities of Northwest State Community College.

For accounting purposes, the value of facilities is considered immaterial and it has not been recognized in the financial statements. However, the value of the services provided by the college personnel in the amount of \$14,261 have been recognized in the statement of activities as supporting revenue and as "In-Kind" supporting expense as required by SFAS 116.

MANAGEMENT ESTIMATES – The preparation of financial statements in conformity with generally accepted accounting principles 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RESTRICTED AND UNRESTRICTED REVENUE – Contributions received are recorded as increases in unrestricted, temporarily restricted or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions.

INCOME TAX STATUS – The Organization is a not-for-profit organization that the Internal Revenue Service has determined to be exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

INVESTMENTS – Investments are comprised of bonds, stocks and marketable certificates of deposit and are carried at fair market value. Unrealized gains and losses are included in the change in net assets in the accompanying statement of revenues, expenses, and changes in net assets.

EXPENSE ALLOCATION – Directly identifiable expenses are charges to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of management estimates.

Administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

NORTHWEST STATE COMMUNITY COLLEGE
HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE 17 – COMPONENT UNIT DISCLOSURES – NORTHWEST STATE COMMUNITY COLLEGE FOUNDATION (CONTINUED)

CASH AND MONEY MARKET FUNDS

Balances as of June 30, 2006 are summarized as follows:

Savings accounts and certificates	\$ <u>252,218</u>
Total of all cash accounts	\$ <u>252,218</u>
	=====

Of the bank balances of \$254,106, \$189,224 was covered by FDIC. The remainder was uninsured and uncollateralized.

MARKETABLE SECURITIES

The various investments in bonds and stocks are exposed to various risks, such as interest rate risk, market fluctuations, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities could occur in the near term, although, in the opinion of management, those changes would not materially effect the amounts reported in the financial statements.

Investments as of June 30, 2006 are summarized as follows:

	<u>Cost</u>	<u>Market Value</u>
Restricted cash and cash equivalents	\$524,159	\$524,159
Bonds	8,598	8,319
Stocks	<u>14,625</u>	<u>428</u>
	\$547,382	\$532,906
	=====	=====

Investment return is summarized as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Interest income	\$ 2,401	\$ 19,914	\$22,315
Amortization – bond discount	-	2	2
Amortization – bond premium	-	(11)	(11)
Net unrealized loss	<u>-</u>	<u>(1,169)</u>	<u>(1,169)</u>
Total investment return	\$ 2,401	\$ 18,736	\$ 21,137
	=====	=====	=====

PLEDGES RECEIVABLE

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Less than one year	\$ 65	\$ 16,699	\$ 60	\$ 16,824
One to five years	<u>0</u>	<u>55,078</u>	<u>0</u>	<u>55,078</u>
	\$ 65	\$ 71,777	\$ 60	\$ 71,902
	=====	=====	=====	=====

Unconditional promises to give that are receivable in more than one year are discounted at 3.98% to recognize the present value of future cash flows. No allowance for uncollectible promises to give is considered necessary.

**NORTHWEST STATE COMMUNITY COLLEGE
HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006**

NOTE 17 – COMPONENT UNIT DISCLOSURES – NORTHWEST STATE COMMUNITY COLLEGE FOUNDATION (CONTINUED)

RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes after June 30, 2006:

Academic chair	\$ 1,700
Loan funds	101,916
Student scholarships	48,499
Technology programs	16,783
Capital Projects	99,879
Operating expenses	488
Memorials	<u>2,758</u>
	<u>\$ 272,023</u>
	=====

Permanently restricted net assets consist of endowment funds to be held indefinitely, income from which is to be used for scholarships. At June 30, 2006 endowments totaled \$ 534,799.

RESTRICTIONS ON NET ASSETS

The Foundation contributes funds to the College for scholarships and other designated purposes. The contributions are subject to the approval by the Board of Trustees of the Foundation. The College paid expenses related to the Foundation’s capital campaign, loan fund and scholarships which will be reimbursed. At June 30, 2006 \$56,716 for the capital campaign is due to the College and is included in accounts payable.

Northwest State Community College
Henry County, Ohio
Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2006

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
United States Department of Education			
<i>Direct from the Federal Agency</i>			
<i>Student Financial Aid Cluster:</i>			
Federal Work Study Program	NA	84.033	\$59,035
Federal Supplemental Educational Opportunity Grant Program	NA	84.007	53,417
Federal Pell Grant Program	NA	84.063	<u>2,565,428</u>
<i>Total Student Financial Aid Cluster</i>			<u>2,677,880</u>
<i>Passed through the Ohio Department of Education</i>			
Vocational Education: Basic Grants to States	20-C3	84.048	63,542
<i>Passed through the Ohio Department of Education to University of Toledo who acts as fiscal agent for the Greater NW Ohio Tech Prep Consortium</i>			
Tech Prep Education	N	84.243	90,000
Subtotal			<u>153,542</u>
Total United States Department of Education			<u>2,831,422</u>
Total Federal Financial Assistance			<u><u>\$2,831,422</u></u>

NA - Direct from the federal government

N - Pass through entity numbers not available

See accompanying notes to the schedule of federal awards expenditures

NORTHWEST STATE COMMUNITY COLLEGE
HENRY COUNTY
NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
June 30, 2006

NOTE 1 – BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards is prepared on the accrual basis. Amounts presented are total federal and expenditures for each program.

NOTE 2 – FEDERAL FAMILY EDUCATION LOANS

While not listed in the accompanying schedules, the College also participates in the Federal Family Education Loan Program (CFDA No. 84.032), including Supplemental Loans for Students (SLS) and Parents' Loans for Undergraduate Students (PLUS). The dollar amounts are not listed in the Schedule of Expenditures of Federal Awards, as the College is not the recipient of the funds. Such programs are considered as a component of the student financial assistance major program. New loans made to eligible students and families during the year ended June 30, 2006, totaled \$5,494,717.

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Ohio Society of Certified Public Accountants

**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
Northwest State Community College
22600 State Route 34
Archbold, Ohio 43502

We have audited the financial statements of the business-type activities and the discretely presented component unit of Northwest State Community College (the College) as of and for the year ended June 30, 2006, and have issued our report thereon dated September 28, 2006, wherein we noted that the College adopted Governmental Accounting Standards Board Statement No. 42, Statement No. 46 and Statement No. 47. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.


Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's basic 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 audit committee, management, members of the Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Balestra, Harr & Scherer, CPAs, Inc.
September 28, 2006

BALESTRA, HARR & SCHERER, CPAs, INC.

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

Board of Trustees
Northwest State Community College
22600 State Route 34
Archbold, Ohio 43502

Compliance

We have audited the compliance of Northwest State Community College (the College) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2006. The College's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program 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 requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

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 the internal control over compliance in accordance with OMB Circular A-133.

Board of Trustees

Northwest State Community College

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

Page 2

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

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

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.
September 28, 2006

NORTHWEST STATE COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505
FOR THE YEAR ENDED JUNE 30, 2006

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Program's Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under section .510?	No
(d)(1)(vii)	Major Programs (list):	Student Financial Aid Cluster: Federal SEOG Program CFDA #84.007, Federal Work- Study Program CFDA# 84.033, PELL Grant Program CFDA# 84.063; Federal Family Education Loan Program CFDA#84.032
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee ?	Yes

NORTHWEST STATE COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505
FOR THE YEAR ENDED JUNE 30, 2006

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

Finding Number	None
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3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	None
CFDA Title and Number	
Federal Award Number/Year	
Federal Agency	
Pass-Through Agency	



**Auditor of State
Betty Montgomery**

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NORTHWEST STATE COMMUNITY COLLEGE

HENRY 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
NOVEMBER 30, 2006**