

North Central State College

Richland County

Single Audit

July 1, 2005 through June 30, 2006

Fiscal Year Audited Under GAGAS: 2006

BALESTRA, HARR & SCHERER, CPAs, Inc.

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Piketon, Ohio 45661

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Mary Taylor, CPA
Auditor of State

Board of Trustees
North Central State College
2441 Kenwood Circle
Mansfield, Ohio 44901

We have reviewed the *Report of Independent Accountants* of the North Central State College, Richland County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2005 through 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 North Central State College is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

January 22, 2007

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North Central State College
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For the Fiscal Year Ended June 30, 2006

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Member American Institute of Certified Public Accountants

Member Ohio Society of Certified Public Accountants

Independent Auditors' Report

Board of Trustees
North Central State College
2441 Kenwood Circle
Mansfield, Ohio 44901

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of North Central State 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities 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 November 10, 2006, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Trustees
North Central State College
Independent Auditors' Report
Page 2

Our audit was conducted for the purpose of forming an opinion 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 the 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 3 to the basic financial statements, the College implemented Governmental Accounting Standards Board 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.
November 10, 2006

North Central State College
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

The Management's Discussion and Analysis (MD&A) of the financial condition of North Central State College (hereafter referred to as the College) provides an overview of the financial performance for the year ended June 30, 2006. This discussion has been prepared by management and should be read in conjunction with the accompanying financial statements and notes.

Financial Highlights

The Statement of Net Assets includes all assets and liabilities. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when earned and expenses and liabilities are recognized when an obligation has been incurred, regardless of when cash is exchanged.

The Statement of Revenues, Expenses, and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. State appropriations are classified as non-operating revenues. The College generated an operating loss. For fiscal year 2006, the College also had an operating loss after including net non-operating revenue, the net assets decreased by \$180,800. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life.

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

The government-wide financial statements include not only the College itself (known as the primary institution), but also certain organizations for which the College is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The Statement of Net Assets

Condensed Financial Information		
Statement of Net Assets		
	2006	2005
Assets		
Current Assets	\$7,083,676	\$6,297,888
Non-current Assets	18,482,835	19,260,205
Total Assets	25,566,511	25,558,093
Liabilities		
Current Liabilities	3,515,466	3,297,226
Non-current Liabilities	740,496	769,518
Total Liabilities	4,255,962	4,066,744
Net Assets		
Invested in Capital Assets, Net of Related Debt	17,164,972	17,701,973
Restricted	234,166	244,003
Unrestricted	3,911,411	3,545,373
Total Net Assets	\$21,310,549	\$21,491,349

Assets

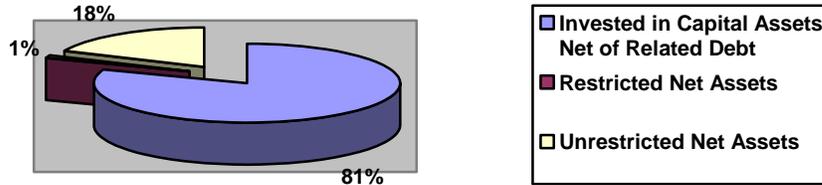
As of June 30, 2006, the College's total assets amounted to \$25,566,511. Investment in capital assets, net of depreciation totaled \$17,347,091 represented the College's largest asset, totaling 68 percent of total assets. Cash and cash equivalents, totaling \$4,093,059 or 16 percent of total assets, were the College's second largest asset. Cash and cash equivalents increased \$433,662 from the prior year. Student accounts receivable of \$2,210,077 or 9 percent, represented the next largest asset.

North Central State College
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Liabilities

At June 30, 2006, the College's liabilities totaled \$4,255,962, comprised of current liabilities of \$3,515,466 and non-current liabilities totaling \$740,496. Deferred revenue represented \$2,359,534 or 55 percent of total liabilities. Total liabilities increased during the year ended June 30, 2006 by \$189,218.

Net Assets



Net Assets

Net assets at June 30, 2006 totaled \$21,310,549 or 83 percent of total assets. Net assets invested in capital assets totaled \$17,164,972 or 81 percent of total net assets. Total net assets decreased by \$180,800 during the year ended June 30, 2006.

Restricted net assets totaled \$234,166 or 1 percent of total net assets. Of the total restricted net assets, \$234,166 was restricted for capital projects. Unrestricted net assets totaled \$3,911,411, or 18 percent of total net assets.

The Statement of Revenue, Expenses, and Changes in Net Assets

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

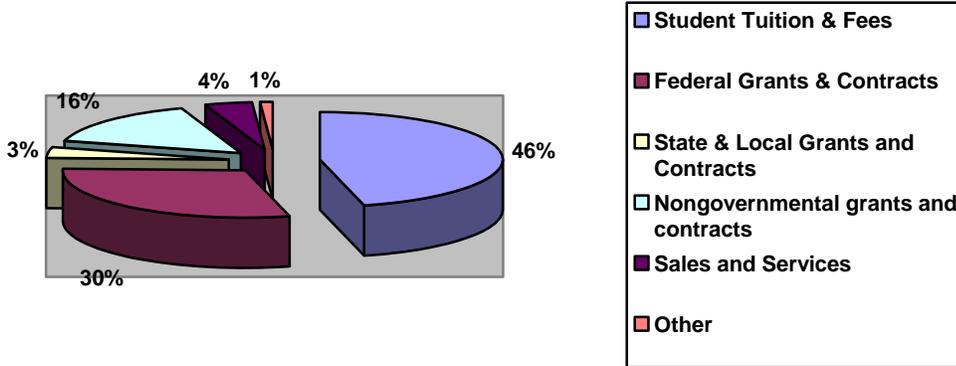
	2006	2005
Total Operating Revenue	\$13,496,364	\$12,946,290
Total Operating Expenses	21,347,727	20,475,080
Operating Loss	(7,851,363)	(7,528,790)
Non-Operating Revenues	7,670,563	7,812,941
Increase(Decrease) in Net Assets	(180,800)	284,151
Net Assets, Beginning of Year	21,491,349	21,207,198
Net Assets, End of Year	\$21,310,549	\$21,491,349

North Central State College
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

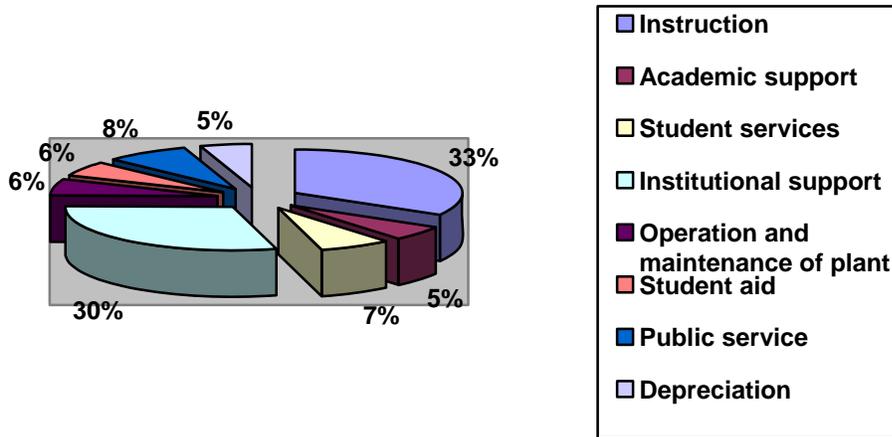
Operating Revenues

Total operating revenues were \$13,496,364 for the year ended June 30, 2006. The most significant sources of operating revenue for the College are net student tuition and fees, 46 percent, federal grants and contracts, 30 percent, and nongovernmental grants and contracts, 16 percent.

Tuition and fees continued to be the largest source of operating revenues for the College. It is important to note that tuition and fees appear net of scholarship allowances of \$1,902,396.



The other significant recurring source of revenue essential to the operation of the College is state appropriations, which is considered non-operating revenue. The College's state appropriations for the year ended June 30, 2006, amounted to \$7,615,036. This represents a decrease of \$186,751 from the College's state appropriations for the prior year.



Operating expenses totaled \$21,347,727. The majority of the College's operating funds are expended directly for the primary mission of the College instruction, 33 percent, academic support, 5 percent, and institutional support, 30 percent. For the year ended June 30, 2006, student aid totaled \$1,176,960 or 6 percent.

North Central State College
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

The Statement of Cash Flows

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

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

Major sources of cash inflows included in operating activities are grants and contracts \$6,392,647 and student tuition and fees \$6,318,176. The largest cash outflows for operating activities were to employees, for wages and benefits, \$13,414,752, for utilities and maintenance, \$2,147,347, and to suppliers, \$1,990,076.

The largest cash receipt in the non-capital financing activities group is the non-operating appropriation from the State of Ohio, \$7,615,036.

Capital Assets

Capital assets, net of accumulated depreciation, totaled \$17,347,091 at June 30, 2006, a net decrease of \$575,042 from the prior year-end. Additions to capital assets during the year totaled \$479,852 and disposals totaled \$39,324. The College also completed a construction project in the amount of \$545,242. Depreciation expense for the year ended June 30, 2006 amounted to \$1,054,239. More detailed information about the College's capital assets is presented in note 6 to the financial statements.

Debt

As of June 30, 2006, the College had debt outstanding of \$182,119 for the Child Development Center facility. This represents a decrease of \$38,041 from the previous year total of \$220,160 due to principal payments. The College utilizes private donations and bookstore commissions to fulfill debt obligations. More detailed information about the College's long-term liabilities is presented in note 10 to the financial statements.

Factors Impacting Future Periods

Ohio is in a financial crisis and a major economic downturn; resulting in diminished capacity to support post secondary education and the problems associated with reliance on tuition increases to fill the gap. In addition to the impact of reduced state support, there are new requirements for greater accountability and increasing regulation from state and federal policy makers. Ohio will continue to face problems in financing current services and will not have sufficient resources to support real increases in spending.

Financial issues continue to be foremost in the minds of College leadership. It is a primary goal of North Central State College to find ways to improve access to quality higher education and workforce and community training for the communities we serve.

The College has approved tuition increases averaging 5.9 percent starting Summer Quarter 2006. In spite of the recent tuition increase, the College's tuition of \$80.75 per credit hour continues to be among the lowest of technical colleges in the State of Ohio. The College expects enrollment to increase slightly in fiscal year 2007.

North Central State College
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006
Unaudited

Final Analysis

North Central State College is committed to maintaining its leadership in the community, to remain competitive in the market and perhaps most importantly, to continue to provide a quality education for our students.

The College is determined to provide high quality and affordable education and to be the key provider of a highly skilled workforce for regional employers. Continuing to rely on the classic academic model lies directly in the face of what we know about how people learn, the opportunities that technology presents to transform the education enterprise, and our historic record of failure with a rapidly diversifying population.

The College must continue to think regionally and focus on partnerships and collaborations to gain support throughout North Central Ohio. Strategies for success will need to focus on learning and increasing success for underserved students while emphasizing continuous improvement and systems thinking. As the College introduces programs to meet the local and regional employment demand, it will be necessary to seek new funding sources. The College will continue to investigate the designing of a student fee structure to raise revenue and using the budget process to align financial incentives with strategic and academic goals of the College.

There continues to be encouraging signs for a bright future. The financial position is strong, reserves have increased, revenues expanded, and expenditures constrained. The College's enrollment, reserves, and cash position are sufficient to endure continued economic changes.

Contacting the College's Financial Management

This financial report is designed to provide the Ohio Board of Regents, our citizens, taxpayers, investors, and creditors with a general overview of the College's finances and show the College's accountability for the money it received. If you have questions about this report or need additional financial information, contact **William C. Miller, Jr., Vice President for Business and Administrative Services at 419-755-4817.**

North Central State College
Statement of Net Assets
As of June 30, 2006

ASSETS	Primary	Component
Current Assets	Institution	Unit
Cash and cash equivalents	\$ 4,093,059	\$ 180,359
Investments	-	1,709,597
Student accounts receivable, net	2,210,077	-
Intergovernmental receivables	770,568	-
Prepaid expenses and deferred charges	9,972	-
Contributions Receivable	-	42,603
Prepaid Expense	-	15,469
Emergency Loan Receivable	-	1,978
Interest in Assets held by Richland Co. Foundation	-	250,000
Total current assets	7,083,676	2,200,006
Noncurrent Assets		
Restricted cash and cash equivalents	28,006	-
Other receivables	1,107,738	-
Capital assets, net	17,347,091	-
Total noncurrent assets	18,482,835	-
Total assets	\$ 25,566,511	\$ 2,200,006
LIABILITIES		
Current Liabilities		
Accounts Payable and Accrued Liabilities	\$ 654,697	\$ 267,394
Deferred Income	2,359,534	11,614
Accrued Wages	460,579	-
Long-term liabilities - current portion	40,656	-
Total current liabilities	3,515,466	279,008
Noncurrent Liabilities		
Long-term liabilities	740,496	-
Total noncurrent liabilities	740,496	-
Total liabilities	4,255,962	279,008
NET ASSETS		
Invested in capital assets, net of related debt	17,164,972	-
Restricted for		
Nonexpendable		
Scholarships	-	915,922
Expendable		
Student Grants and Scholarships	-	366,586
Capital Projects	234,166	-
Unrestricted	3,911,411	638,490
Total net assets	21,310,549	1,920,998
Total liabilities and net assets	\$ 25,566,511	\$ 2,200,006

See accompanying notes to the basic financial statements.

North Central State College
Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30, 2006

	Primary Institution	Component Unit
REVENUES		
Operating Revenues:		
Student tuition and fees (net of scholarship allowances of \$1,902,396)	\$ 6,211,240	\$ -
Federal grants and contracts	4,001,937	-
State and local grants and contracts	469,141	-
Nongovernmental grants and contracts	2,092,743	-
Sales and services	564,009	-
Contributions	-	186,278
Fundraising	-	187,381
Other operating revenues	157,294	7,000
Total operating revenues	13,496,364	380,659
EXPENSES		
Operating Expenses:		
Educational and general:		
Instruction	7,119,719	-
Academic support	1,171,329	49,935
Student services	1,478,481	-
Institutional support	6,298,036	-
Operation and maintenance of plant	1,307,621	-
Student aid	1,176,960	67,048
Public service	1,741,342	-
Depreciation	1,054,239	-
Other expenditures	-	234,086
Total operating expenses	21,347,727	351,069
Operating income (loss)	(7,851,363)	29,590
NONOPERATING REVENUES (EXPENSES)		
State appropriations	7,615,036	-
Investment income, net	70,891	81,975
Interest on capital asset-related debt	(15,364)	-
Net Nonoperating Revenues (Expenses)	7,670,563	81,975
Increase (decrease) in net assets	(180,800)	111,565
NET ASSETS		
Net Assets, Beginning of Year	21,491,349	1,809,433
Net Assets, End of Year	\$ 21,310,549	\$ 1,920,998

See accompanying notes to the basic financial statements.

North Central State College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2006

	<u>Primary Institution</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>	
<i>Cash Flows from Operating Activities:</i>	
Tuition and fees	\$ 6,318,176
Grants and contracts	6,392,647
Payments to suppliers	(1,990,076)
Payments to employees and for benefits	(13,414,752)
Payments for utilities and maintenance	(2,147,347)
Payments for student aid	(1,176,960)
Sales and service of educational activities	564,009
Other receipts (payments)	<u>(1,237,354)</u>
Net cash used by operating activities	<u>(6,691,657)</u>
<i>Cash Flows from Non-Capital and Related Financing Activities:</i>	
FFEL Loans received	2,329,148
FFEL Loans disbursed	(2,329,148)
State appropriations	<u>7,615,036</u>
Net cash provided by non-capital and related financing activities	<u>7,615,036</u>
<i>Cash Flows from Capital and Related Financing Activities:</i>	
Purchases of capital assets	(479,197)
Interest paid on capital debt	(15,364)
Principal paid on capital debt	<u>(38,041)</u>
Net cash used by capital and related financing activities	<u>(532,602)</u>
<i>Cash Flows from Investing Activities:</i>	
Interest on investments	<u>70,891</u>
Net cash provided by investing activities	<u>70,891</u>
Net increase in cash and cash equivalents	461,668
Cash and Cash Equivalents, beginning of year	<u>3,659,397</u>
Cash and Cash Equivalents, end of year	<u>\$ 4,121,065</u>
<u>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u>	
Operating loss	\$ (7,851,363)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Depreciation	1,054,239
Change in Assets and Liabilities:	
Receivables, net	(116,424)
Prepaid Expenses	(5,368)
Payables	21,476
Accrued Wages	(936)
Deferred revenue	195,038
Compensated absences	<u>11,681</u>
Net cash used by operating activities	<u>\$ (6,691,657)</u>

See accompanying notes to the basic financial statements.

NOTE 1-DESCRIPTION OF THE ENTITY

North Central Ohio Technical Institute (the “College”) was chartered in 1969 under provisions of Section 3357 of the Ohio Revised Code. This action of the Ohio Board of Regents and the Secretary of State created the Technical College District in the contiguous counties of Ashland, Crawford, and Richland. In August of 1999, the Board of Trustees changed the name of the College to North Central State College. The College is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The College offers associate degree programs and certificate programs that prepare individuals to be technicians and paraprofessionals in business technologies, engineering technologies, health technologies, and public service technologies. The College also offers noncredit continuing education classes and customized contract-training services to companies and employees in the service area. The College is directed by a Board of Trustees, the members of which are public representatives of Ashland, Crawford and Richland Counties.

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the College have been prepared in conformity with generally accepted accounting principles. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. 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.

The more significant of the College’s accounting policies are described below:

- A. *Basis of Presentation* – The College applies GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*; GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*; GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The financial statement presentation required by GASB Statements No. 34 and 35 is intended to provide a comprehensive, entity-wide perspective of the College’s assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows.
- B. *Basis of Accounting* - The financial statements of the College have been prepared using the economic resources 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. The College reports as a “business type activity” as defined by GASB Statement No. 34. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. The full scope of the College’s activities is considered to be a single business type activity and accordingly, is reported within a single column in the basic financial statements.
- C. *Budgetary Process* - The budget is an annual plan for the financial operations of the College that establishes a basis of control and evaluation of activities financed through the current funds of the College. Formal adoption of the budget into the accounting records is not legally mandated and, thus, the College does not integrate the budget into its accounts.

North Central State College
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 2 – SUMMARY OF ACCOUNTING POLICIES (Continued)

D. Cash and Investments - For purposes of presentation on the Statement of Net Assets and the Statement of Cash Flows, investments with maturities of three months or less at the time they are purchased are considered to be cash equivalents. During fiscal year 2006, investments were limited to STAR Ohio. These investments are reported as cash equivalents on the Statement of Net Assets. Investments are reported at fair value which is based on quoted market prices.

E. Accounts Receivable - Receivables at June 30, 2006, consist primarily of student tuition and fees, pledges for the Kehoe Center, and grants due from other governments. Student tuition and fees are reported at net using the direct write-off method.

F. Capital Assets - Donated land, buildings, improvements, and equipment are capitalized at estimated fair market value on the date of the gift. The College capitalizes assets other than land and building improvements that have a value or cost in excess of \$2,500 and an expected useful life of one or more years. Land and building improvements that significantly increase the value or useful life of the asset of more than \$12,500 and \$25,000, respectively, are also capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements which extend the useful life or increase the capacity or operating efficiency of the asset are capitalized at cost. Infrastructure assets, consisting of sidewalks, parking lots, lighting systems and signage, are capitalized and reported. Capital assets, with the exception of land, are depreciated using the straight-line method and full-month convention over the following useful lives:

Land Improvements	20-30 years
Buildings	40 years
Building Improvements	7-30 years
Furniture, Fixtures and Equipment	5-20 years
Vehicles	5-10 years
Infrastructure	25 years

G. Noncurrent Long-Term Liabilities - Noncurrent long-term liabilities include bonds payable and compensated absences that will not be paid within the next fiscal year.

H. Deferred Income - Deferred income is principally comprised of receipts relating to tuition and fees received in advance of the sessions that are primarily or fully conducted in the next accounting period. The College recognizes this revenue in the fiscal year that the sessions are predominately conducted.

I. Compensated Absences - GASB Statement No. 16, *Accounting for Compensated Absences*, specifies that vacation leave and other compensated absences with similar characteristics should be accrued as a liability as the benefits are earned by the employees if both of the following conditions are met:

1. The employees' rights to receive compensation are attributable to services already rendered.
2. It is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Other compensated absences with characteristics similar to vacation leave are those which are not contingent on a specific event outside the control of the employer and employee. Further, sick leave and other similar compensated absences are those which are contingent on a specific event that is outside the control of the employer and employee. The College has accrued a liability for these compensated absences using the termination method when the following criteria are met:

NOTE 2 – SUMMARY OF ACCOUNTING POLICIES (Continued)

I. Compensated Absences (Continued)

1. The benefits are earned by the employees and it is probable that the employer will compensate the employees for the benefits through cash payments conditioned on the employees' retirement ("termination payments").
2. The sick leave liability has been based on the College's past experience of making termination payments for sick leave.

J. Operating and Non-Operating Revenues and Expenses

The College presents its revenues and expenses as operating or non-operating based on recognition definitions per GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trusts 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 nonexchange transactions and state appropriations that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are investing, capital, or noncapital financial activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor nonoperating activities and are presented after nonoperating activities on the Statement of Revenues, Expenses and Changes in Net Assets. The College had no revenues for capital financing activities for the fiscal year ended June 30, 2006.

K. Scholarship Allowances

Student tuition and fees revenue is reported net of scholarship allowances in the Statement of Revenues, Expenses and Changes in Net Assets.

The scholarship allowance represents the difference between actual charges for goods and services provided by the College and the amount that is paid by the student or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as operating revenues in the Statement of Revenue, Expense 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.

L. Net Assets

The College's net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt – This is comprised of capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvements of those assets.

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

NOTE 2 – SUMMARY OF ACCOUNTING POLICIES (Continued)

L. Net Assets (Continued)

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

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

N. Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosure in the footnotes. Actual results could differ from those estimates.

NOTE 3- CHANGE IN ACCOUNTING PRINCIPLES

For the fiscal year 2006, the College has implemented 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*. These new standards had no effect on the financial statements, nor did their implementation require a restatement of prior year balances.

NOTE 4-CASH AND CASH EQUIVALENTS

A. Policies and Practices - It is the responsibility of the Business and Finance Department to deposit and invest the College's idle funds. The College's practice is to limit investments to United States Treasury notes and bills, collateralized certificates of deposit and repurchase agreements, insured and/or collateralized demand deposit accounts or obligations of other United States agencies for which the principal and interest is guaranteed by the United States Government. The College does not enter into reverse repurchase agreements. The investment and deposit of College monies is governed by the Ohio Revised Code. Investment of the College's monies is restricted to certificates of deposit, savings accounts, money market accounts and the State Treasurer's Investment Pool (STAR Ohio), obligations of the United States Government or certain agencies thereof and certain industrial revenue bonds issued by other governmental entities.

The College may also enter into repurchase agreements with any eligible depository for a period not exceeding thirty days. Public depositories must give security for all public funds on deposit. These institutions may specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. State law does not require security for the public deposits and investments to be maintained in the College's name.

B. Cash on Hand - At June 30, 2006, the College had \$2,000 in undeposited cash on hand which is reported as part of cash and cash equivalents on the Statement of Net Assets.

North Central State College
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 4-CASH AND CASH EQUIVALENTS (Continued)

C. Deposits - At June 30, 2006, the reported amount of the College's deposits was \$1,682,922 and the bank balance was \$2,171,261. The difference between the carrying amount of the College's deposits and the bank balance represents normal reconciling items.

Of the bank balance, \$100,000 was protected by Federal Deposit Insurance Corporation (FDIC). Of the remaining balance, \$2,071,261 was held by the pledging financial institution in a collateral pool not in the College's name in accordance with the Ohio Revised Code, which is considered uninsured and uncollateralized and subject to custodial credit risk. Although all State statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the College to a successful claim by the FDIC. 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. The College's policy required that public depositories must give security for all public funds on deposits by either specifically collateralizing individual accounts in lieu of amounts insured by the FDIC or by pledging a pool of government securities.

D. Investments - The State Treasurer's Investment Pool (STAR Ohio) is an authorized investment under both the College's policy and the Ohio Revised Code.

As of June 30, 2006, the primary government had the following investments (based on quoted market prices) and maturities (in years):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity (in Years)</u>	<u>Percent of Portfolio</u>
STAR Ohio	\$2,436,143	Less than 1 \$2,436,143	100%

Interest rate risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The College's policy is to invest in allowable investments per the Ohio Revised Code. The Ohio Revised Code limits the purchase of securities to those with a maturity of no more than five years from the date of purchase unless matched to a specific obligation or debt of the College. The College's investment policy also allows the entering into a repurchase agreement with any eligible depository for a period not exceeding thirty days.

Credit risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Ohio Revised Code limits investments in commercial paper, corporate bonds and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations at the time of purchase. Standard & Poor's has assigned STAR Ohio a money market rating of AAA m.

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 College does not have an investment policy that provides for diversification to avoid concentration in securities of one type or securities of one financial institution. 100% has been invested in STAR Ohio.

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. The College is not exposed to custodial credit risk for its investments.

North Central State College
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 5-RECEIVABLES

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

	Gross Receivable	Allowance for Doubtful Accounts	Net Receivable	Deferred Income
Student Accounts	\$2,318,843	\$108,766	\$2,210,077	\$2,314,534
Intergovernmental	557,568	0	557,568	0
Grants	213,000	0	213,000	45,000
Other	1,107,738	0	1,107,738	0
Total Receivables	<u>\$4,197,149</u>	<u>\$108,766</u>	<u>\$4,088,383</u>	<u>\$2,359,534</u>

NOTE 6-CAPITAL ASSETS

Capital assets as of June 30, 2006 are summarized as follows:

Cost	Balance 07/01/2005	Additions	Deletions	Balance 06/30/2006
Land	\$225,629	\$0	\$0	\$225,629
Land Improvements	724,984	0	0	724,984
Buildings	14,809,029	0	0	14,809,029
Building Improvements	4,467,379	545,242	0	5,012,621
Infrastructure	208,655	0	0	208,655
Leasehold Improvements	1,460,942	0	0	1,460,942
Vehicles	45,757	16,338	(6,550)	55,545
Equipment	3,917,372	199,005	(32,774)	4,083,603
Construction in Progress	369,797	264,509	(545,242)	89,064
Total Cost of Capital Assets	<u>26,229,544</u>	<u>1,025,094</u>	<u>(584,566)</u>	<u>26,670,072</u>
<u>Accumulated Depreciation</u>				
Land Improvements	(372,720)	(35,981)	0	(408,701)
Buildings	(3,911,977)	(401,242)	0	(4,313,219)
Building Improvements	(229,981)	(213,388)	0	(443,369)
Infrastructure	(54,258)	(8,346)	0	(62,604)
Leasehold Improvements	(706,517)	(69,924)	0	(776,441)
Vehicles	(47,844)	(7,019)	5,895	(48,968)
Equipment	(2,984,114)	(318,339)	32,774	(3,269,679)
Total Accumulated Depreciation	<u>(8,307,411)</u>	<u>(1,054,239)</u>	<u>38,669</u>	<u>(9,322,981)</u>
Capital Assets, Net	<u>\$17,922,133</u>	<u>(\$29,147)</u>	<u>(\$545,897)</u>	<u>\$17,347,091</u>

NOTE 7-STATE SUPPORT

The College is a state-assisted institution of higher education that receives a student-based subsidy from the State of Ohio. The subsidy is determined annually based upon a formula devised by the Ohio Board of Regents, adjusted to state resources available.

In addition to the student subsidies, the State of Ohio provides the funding for and constructs major plant facilities on the College's campus. The funding is obtained from the issuance of special obligation 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. Upon completion of the facility, the Board of Regents turns over control to the College which capitalizes the cost thereof. Neither the obligation for the special obligation bonds issued by the Ohio Public Facilities Commission nor the annual debt service charges for principal and interest on the bonds are reflected in the financial statements of the College.

These are currently being funded through appropriations to the Ohio Board of Regents by the Ohio General Assembly. Construction in progress for any portion of the facilities being financed by the state agencies for use by the College is recorded on the College's book of account as costs are incurred.

The facilities are not pledged as collateral for the special obligation bonds. Instead, the bonds are supported by a pledge of monies in the Higher Education Bond Service Fund established in the custody of the Treasurer of State. If sufficient monies are not available from this fund, a pledge exists to assess a special student fee uniformly applicable to students in state-assisted institutions of higher education throughout the State.

Outstanding debt issued by the Ohio Public Facilities Commission is not included on the College's Statement of Net Assets. In addition, the appropriations by the Ohio General Assembly to the Board of Regents for payment of debt services are not shown as appropriation revenue received by the College and the related debt service payments are not recorded in the accounts of the College.

NOTE 8-DEFINED BENEFIT PENSION PLANS

All employees of the College are eligible to participate in one of two cost-sharing, multiple employer defined benefit pension plans. Academic personnel participate in the State Teachers Retirement System and nonacademic personnel participate in the School Employees Retirement System.

A. State Teachers Retirement System

The College participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 East Broad Street, Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

NOTE 8-DEFINED BENEFIT PENSION PLANS (Continued)

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. 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. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. 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.

For the fiscal year ended June 30, 2006, plan members were required to contribute 10 percent of their annual covered salaries. The College was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The College's required contributions for pension obligations for the fiscal years ended June 30, 2006, 2005, and 2004, were \$743,093, \$717,437, and \$733,524, respectively; equal to the required contribution for each fiscal year.

B. School Employees Retirement System

The College contributes to the School Employees Retirement System of Ohio (SERS Ohio), a cost-sharing, multiple employer defined benefit pension plan. SERS Ohio provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. 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 Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

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 College rate is 14 percent of annual covered payroll. A portion of the College's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2006, 10.58 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Ohio Retirement Board. The College's required contributions for pension obligations to SERS Ohio for the fiscal years ended June 30, 2006, 2005, and 2004 were \$515,614, \$586,950, and \$537,957, respectively; equal to the required contributions for each fiscal year.

C. 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 24, 1999. This plan is a defined contribution plan under IRS section 401(a).

NOTE 8-DEFINED BENEFIT PENSION PLANS (Continued)

C. Alternative Retirement Plan (Continued)

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% to the State Teachers Retirement System to which the employee would have otherwise belonged. The College also contributes what would be the employer's share of the appropriate retirement system, less the aforementioned 3.5%, to the private provider 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 \$130,441, \$68,365, and \$64,683, respectively.

NOTE 9-POSTEMPLOYMENT BENEFITS

The College provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS Ohio) and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS Ohio). Coverage includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums.

Benefit provisions and the obligation to contribute are established by the Systems based on authority granted by State statute. Both Systems are funded on a pay-as-you-go basis.

Pursuant to the Ohio Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. For the fiscal year ended June 30, 2006, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund.

The balance in the Health Care Reserve Fund was \$3.3 billion at June 30, 2005 (the latest information available). For the year ended June 30, 2005, net health care costs paid by STRS Ohio were \$254,780,000, and STRS Ohio had 115,395 eligible benefit recipients statewide.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 2006, the healthcare allocation rate is 3.42 percent. In addition, SERS Ohio 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 2006, the minimum pay has been established as \$35,800. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

North Central State College
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 9-POSTEMPLOYMENT BENEFITS (Continued)

Health care benefits are financed on a pay-as you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2005, (the latest information available) were \$178,221,113 and the target level is 150% of the projected claims less premium contributions for the next fiscal year. At June 30, 2005, SERS Ohio had net assets available for payment of health care benefits of \$267.5 million. SERS Ohio has approximately 58,123 benefit recipients statewide currently receiving health care benefits. The portion of the College's contributions that were used to fund postemployment benefits was \$90,407 for the fiscal year ended June 30, 2006.

NOTE 10-LONG-TERM LIABILITIES

Changes in long-term liabilities are as follows:

	Balance			Balance	Current
	<u>July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2006</u>	<u>Portion</u>
Compensated Absences	\$587,352	\$599,033	(\$587,352)	\$599,033	\$0
Bond Payable	220,160	0	(38,041)	182,119	40,656
Total Long-Term	<u>\$807,512</u>	<u>\$599,033</u>	<u>(\$625,393)</u>	<u>\$781,152</u>	<u>\$40,656</u>

NOTE 11-BONDS PAYABLE

Bonds payable at June 30, 2006 consisted of the following:

Bonds Payable

Refunding revenue bonds, Series 1995; principal and interest payable in annual installments of \$53,405; bearing interest at 7.0 percent; final payment scheduled June 1, 2010. The original amount of the bond issue was \$575,000.

The College has pledged certain future revenue as collateral for the refunding revenue bonds.

Maturity of outstanding debt is as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$40,653	\$12,752
2008	43,499	9,906
2009	46,540	6,865
2010	51,427	1,978
Total	<u>\$182,119</u>	<u>\$31,501</u>

North Central State College
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 12-OPERATING EXPENSES BY FUNCTION AND NATURAL CLASS

	Payroll and Benefits	Supplies and Other Services	Utilities and Maintenance	Student Aid and Scholarship	Depreciation Expense	Other Expense	Totals
Instruction	\$6,336,420	\$630,773	\$0	\$0	\$0	\$152,526	\$7,119,719
Academic support	1,042,541	54,225	0	0	0	74,563	1,171,329
Student services	1,337,473	82,709	0	0	0	58,299	1,478,481
Institutional support	2,624,595	952,617	1,695,600	0	0	1,025,224	6,298,036
Operation & maintenance of plant	750,564	103,126	451,747	0	0	2,184	1,307,621
Student aid	0	0	0	1,176,960	0	0	1,176,960
Public service	1,333,904	182,734	0	0	0	224,704	1,741,342
Depreciation	0	0	0	0	1,054,239	0	1,054,239
Total operating expenses	<u>\$13,425,497</u>	<u>\$2,006,184</u>	<u>\$2,147,347</u>	<u>\$1,176,960</u>	<u>\$1,054,239</u>	<u>\$1,537,500</u>	<u>\$21,347,727</u>

NOTE 13-CONTINGENCIES

A. Federal and State Grants

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

B. Litigation

The College is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the College's counsel that resolutions of these matters will not have a material adverse effect on the financial condition of the College.

NOTE 14-RISK MANAGEMENT

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

NOTE 15- NET ASSETS RESTRICTED BY ENABLING LEGISLATION

Of the District's \$234,166 restricted net assets, none was restricted by enabling legislation.

NOTE 16- COMPONENT UNIT DISCLOSURES- NORTH CENTRAL STATE COLLEGE FOUNDATION

DESCRIPTION OF THE FOUNDATION

North Central State College Foundation, Inc. (the Foundation) financial statements have been prepared on an accrual basis of accounting. The Foundation is a not-for-profit organization established in accordance with Section 501(c)(3) of the Internal Revenue Code. The Foundation operates under a Board of Trustees who is appointed, not to be less than twelve, but not to exceed forty members. The Foundation is organized primarily to engage in activities and programs to provide support and services to the North Central State College (the College).

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Contributions

The Foundation reports contributions in accordance with Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*. SFAS No. 116 requires that unconditional promises to give, with payments due in future periods, be recorded as receivables and support in either unrestricted, temporarily restricted, or permanently restricted net assets as appropriate in the period received at their net present value. The accumulated discount of net present value of the pledge is accounted for as contribution income of the related class of net assets. Conditional promises to give are not recorded as support until the condition upon which they depend has been substantially met by the Foundation.

Financial Statement Presentation

SFAS No. 117, *Financial Statements of Not-For-Profit Organizations*, requires that the amounts for each of three classes of net assets: unrestricted, temporarily restricted and permanently restricted, be presented in an aggregated statement of financial position and that the amounts of changes in each of those classes of net assets be presented in a statement of activities. This statement requires that resources be classified into three net asset categories according to donor-imposed restrictions. A description of each of the categories is as follows:

Unrestricted Net Assets

Assets which are free of donor-imposed restrictions; all revenues, expenses, gains and losses that are not changes in temporarily or permanently restricted net assets.

Temporarily Restricted Net Assets

Assets which include gifts and pledges receivable for which donor-imposed restrictions have not been met and for which the ultimate purpose of the proceeds are not permanently restricted.

Permanently Restricted Assets

Assets that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity. The income from these assets is included in the investment income of unrestricted and restricted funds, as appropriate, in the accompanying Statement of Activities.

When a donor restriction expires, that is, when a stipulated time restriction expires or purpose restriction is accomplished, restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Investments

The Foundation reports investments in accordance with SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Investments in marketable securities with readily determined fair values and all investments in debt securities are reported at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets. Investments of the unrestricted, temporarily restricted, and permanently restricted funds are pooled for making investment transactions and are carried at market value. Interest and dividend income, as well as realized and unrealized gains and losses, are allocated to unrestricted, temporarily restricted, and permanently restricted funds.

North Central State College
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 16- COMPONENT UNIT DISCLOSURES- NORTH CENTRAL STATE COLLEGE FOUNDATION
(Continued)

Donated Service and Facilities

The Foundation 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 North Central State College, utilizing equipment and facilities of North Central State 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 College personnel in the amount of \$260 have been recognized in the Statement of Activities as other supporting revenue and as other supporting expenses as required by SFAS 116.

Contributions Receivable

Contributions received, including unconditional promises to give, are recognized as revenue by net asset class when the donor's commitment is received. Unconditional promises are recognized at the estimated present value of the future cash flows, net of allowances (fair value). Promises designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Foundation reports the support as unrestricted. Conditional promises are recorded when donor stipulations are substantially met. The Foundation requires an initial minimum balance of \$5,000 to establish a scholarship fund. The policy allows a period, generally not to exceed 48 months, for the accumulation of contributions and interest to meet the minimum \$5,000 requirement.

Prepaid Expenses

Certain payments to vendors for fundraising activities reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets

Fixed assets acquired by the Foundation consist of office equipment. All expenditures for capital assets in excess of \$1,000 are capitalized. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets not to exceed ten years. As of June 30, 2006, all fixed assets were fully depreciated.

Deferred Revenue

Deferred revenue results from various fundraising activities. It represents amounts received from sponsors, vendors, and sales of admission tickets in advance. Deferred revenue is recognized as revenue in the period that the fundraising activity actually occurs.

Estimates

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

North Central State College
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 16- COMPONENT UNIT DISCLOSURES- NORTH CENTRAL STATE COLLEGE FOUNDATION
(Continued)

INVESTMENTS

The various investments in fixed income securities, mutual funds and other investment securities are exposed to various risks, such as interest rate, 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 and those changes could materially affect the amounts reported in the financial statements.

At June 30, 2006, investments consisted of the following:

	Carrying Value	Market Value
Money Market Investments –		
U.S. Government Obligations	\$94,312	\$94,312
Mutual Funds - Fixed Income Corporations	482,103	482,103
Mutual Funds - Equity Securities	1,133,182	1,133,182
Total	\$1,709,597	\$1,709,597

CONTRIBUTIONS RECEIVABLE

Unconditional promises to give are included in the financial statements as contributions receivable and contributions of the appropriate net asset category. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discount rate on those amounts is computed using a risk free interest rate applicable to the years in which the promises are to be received. The discount rate used for the year ended June 30, 2006 was 3.25%. The amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until conditions of those promises have been met.

Contributions receivable consisted of the following at June 30, 2006:

Unconditional promises to give before unamortized discount and allowance for uncollectible contributions:

Unrestricted	\$625
Temporarily restricted	37,250
Permanently restricted	11,000
Gross unconditional promises to give	48,875
Less: Unamortized discount	(1,385)
Less: Allowance for uncollectible contributions	(4,887)
Net unconditional promises to give	\$42,603
Amounts due:	
Less than one year	\$32,143
One to five years	10,460
Net unconditional promises to give	\$42,603

North Central State College
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 16- COMPONENT UNIT DISCLOSURES- NORTH CENTRAL STATE COLLEGE FOUNDATION
(Continued)

TEMPORARILY RESTRICTED NET ASSETS

Net assets were released from donor restrictions by incurring expenses satisfying the purpose restriction specified by donors.

Scholarships for Students	\$67,048
Equipment	50,000
Professional Development	<u>1,512</u>
Total Released Net Assets	<u><u>\$118,560</u></u>

Temporarily and permanently restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Temporarily restricted net assets are available for providing scholarships to the College's students, providing professional development funds to the College staff and purchasing equipment for the benefit of the College. Permanently restricted net assets are restricted to investment in perpetuity and the income from which is expendable for scholarships to the College's students.

The different types of temporarily restricted net assets are classified as follows:

Scholarships for Students:

Brown Scholarship	\$500
Carter Memorial Scholarship	246
Cobey Scholarship	900
Computer Center	1,492
Emerson Scholarship	4,500
Equipment	6,603
Faculty Scholarship	9,000
FYE Textbooks	4,000
G-R Civic Scholarship	900
Garber Scholarship	1,200
Gimbel-Health Chair	5,067
Gimble Scholarships	10,452
Gorman-Rupp Scholarship	6,000
Gubkin Scholarship	800
Kroger Scholarship	1,000
Haring Scholarship	2,000
KMU Scholarship	550
Mansfield University	4,169
Nursing Scholarship	11,000
Orange and Blue Scholarship	3,000
Paralegal Library	321
Pres Emeritus Scholarship	1,000
Preston Scholarship	1,450
Professional Development	880
Rable Machine Scholarship	166
Welsh Scholarship	2,550
Tech Prep	3,710
YES Scholarship	3,000
Other	30,130
Richland County Foundation	<u>250,000</u>
Total Temporarily Restricted	<u><u>\$366,586</u></u>

North Central State College
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 16- COMPONENT UNIT DISCLOSURES- NORTH CENTRAL STATE COLLEGE FOUNDATION
(Continued)

PERMANENTLY RESTRICTED NET ASSETS

Endowment Scholarships for Students:

Brown Scholarship	\$6,451
Carter Memorial Endowment	20,047
Cobey Scholarship	21,888
Emerson Scholarship	103,874
Faculty Scholarship	11,061
G-R Civic Scholarship	21,747
Garber Scholarship	30,876
Gimble Health Chair	136,893
Gorman-Rupp Scholarship	57,373
Gubkin Scholarship	7,207
Haring Scholarship	22,471
KMU Scholarship	6,275
Kroger Scholarship	34,044
NCOBDC Scholarship	2,296
Neer Scholarship	2,424
Nursing Scholarship	235,181
Orange and Blue Scholarship	66,880
Presidents Emeritus Endowment	16,632
Preston Endowment	32,273
Respiratory Care Endowment	1,193
Welsh Scholarship	52,202
Williams Human Services Fund	1,104
Entrepreneur Endowment (Y.E.S.)	17,942
Restricted Contributions	<u>7,588</u>
Total Permanently Restricted	<u><u>\$915,922</u></u>

RICHLAND COUNTY FOUNDATION

During 1991, the Foundation established a "Direct Fund" in which an irrevocable gift was made to the Richland County Foundation. This fund is identified by the Richland County Foundation as the North Central State College Foundation "Endowment Fund" and is subject to the provisions contained within the fund agreement dated December 31, 1991. This fund is the property of the Richland County Foundation, whereby, those funds will be held in perpetuity, and the investment income will be distributed to the Foundation annually to benefit the North Central State College. One of the provisions in this fund agreement, the variance power, concerns the power to vary some of the terms of the agreement. As defined by United States Treasury Regulations, the Richland County Foundation has the right to modify the terms of the fund agreement if, in the judgment of the Richland County Foundation's Board of Trustees, the restrictions and conditions in the agreement become unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community.

In accordance with SFAS No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others*, the portion of this fund contributed by the Foundation is considered a reciprocal transfer because the Foundation is also the beneficiary of this fund. This balance is shown on the Richland County Foundation's Statement of Financial Position as a liability called "Funds Held as Agency Endowments". This amounted to \$250,000 at June 30, 2006.

North Central State College
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2006

NOTE 16- COMPONENT UNIT DISCLOSURES- NORTH CENTRAL STATE COLLEGE FOUNDATION
(Continued)

Also, under SFAS No. 136, the portion of this fund contributed by unrelated third party donors is considered a contribution to the Richland County Foundation and is included in the net assets of the Richland County Foundation. The amount recognized in the Statement of Financial Position of the Richland County Foundation at June 30, 2006 totaled \$288,178.

INCOME TAXES

The Foundation is a not-for-profit corporation as described in Section 501 (c) (3) of the Internal Revenue Code, and the organization is exempt from federal and state income taxes.

North Central State College
Schedule of Federal Awards Expenditures
For the Fiscal Year Ended June 30, 2006

Federal Grantor/ Pass Through Grantor Program Title	CFDA #	Pass Through Entity Number	Disbursements
United States Department of Education			
<i>Student Financial Assistance Programs Cluster:</i>			
Federal Supplemental Educational Opportunity Grants	84.007	N/A	\$107,893
Federal Work-Study Program	84.033	N/A	123,644
Federal Pell Grant Program	84.063	N/A	2,680,800
Federal Family Education Loans	84.032	N/A	2,329,148
<i>Total Federal Student Financial Assistance Programs Cluster</i>			5,241,485
<i>Passed Through the Ohio Department of Education:</i>			
Vocational Education - Basic Grants to States	84.048	VECPHIII-P2002-505	100,089
Tech-Prep Education	84.243	3ETC	162,059
<i>Total Passed Through the Ohio Department of Education</i>			262,148
 Total United States Department of Education			5,503,633
United States Department of Labor			
<i>Passed Through Ohio Bureau of Employment Services:</i>			
Trade Adjustment Assistance - Workers	17.245	70502-038	91,373
<i>Passed Through Ohio Department of Education:</i>			
WIA Adult Program	17.258	WFHS	142,345
 Total United States Department of Labor			233,718
United States Department of Health and Human Services			
Head Start	93.600	N/A	441,555
<i>Passed through the Ohio Department of Education</i>			
Temporary Assistance for Needy Families	93.558	06354-HSLS-2006	2,579
 Total United States Department of Health and Human Services			444,134
Department of Agriculture			
<i>Passed Through the Ohio Department of Education</i>			
Child and Adult Care Food Program	10.558	CCCN/CCMN/LUCN	34,816
 Total United States Department of Agriculture			34,816
Total Federal Financial Assistance			\$6,216,301

Legend:

N/A - Direct from the federal government.

See accompanying notes to the schedule of federal awards expenditures.

North Central State College
Notes to the Schedule of Federal Awards Expenditures
For the Fiscal Year Ended June 30, 2006

NOTE 1 – BASIS OF PRESENTATION

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant transactions of North Central State College (the College) recorded on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE 2 – FAMILY EDUCATION LOANS

During the fiscal year ended June 30, 2006, the College processed new loans under the Guaranteed Student Loan Program. Several banks act as lenders for the College. The amount shown reflects the fiscal year amount that has been certified by the College.

BALESTRA, HARR & SCHERER, CPAs, Inc.

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

Board of Trustees
North Central State College
2441 Kenwood Circle
Mansfield, Ohio 44901

We have audited the accompanying financial statements of North Central State College (the College) and its discretely presented component unit as of and for the year ended June 30, 2006, and have issued our report thereon dated November 10, 2006, in which we indicated the College adopted GASB Statements No. 42, 46, and 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 over financial reporting 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 financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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*.

Board of Trustees
North Central State College
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*
Page 2

This report is intended solely for the information and use of the audit committee, management, Board members,
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.
November 10, 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
North Central State College
2441 Kenwood Circle
Mansfield, Ohio 44901

Compliance

We have audited the compliance of North Central State 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 each of its major federal programs for the year ended June 30, 2006. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

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

In our opinion, the College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 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
North Central State 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, Board members, 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.
November 10, 2006

North Central State College
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
For the Fiscal Year Ended June 30, 2006

1. SUMMARY OF AUDITORS' 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 Supplemental Educational Opportunity Grants (CFDA #84.007); Federal Work-Study Program (CFDA #84.033); Federal PELL Grant Program (CFDA #84.063); Federal Family Education Loans (CFDA #84.032) Head Start (CFDA #93.600)
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

North Central State College
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
For the Fiscal 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	



Mary Taylor, CPA
Auditor of State

**NORTH CENTRAL STATE COLLEGE
RICHLAND 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
FEBRUARY 1, 2007**