

NORTH CENTRAL STATE COLLEGE
INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003



**Auditor of State
Betty Montgomery**

Board of Trustees
North Central State College

We have reviewed the Independent Auditor's Report of the North Central State College, Richland County, prepared by Gary B. Fink & Associates, Inc. for the audit period July 1, 2002 through June 30, 2003. 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.

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

BETTY MONTGOMERY
Auditor of State

December 5, 2003

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**NORTH CENTRAL STATE COLLEGE
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
North Central State College
2441 Kenwood Circle, Box 698
Mansfield, Ohio 44903

We have audited the accompanying basic financial statements of the North Central State College (the College), as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 financial position of the North Central State College, as of June 30, 2003, and the changes in its financial position and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Notes 3 and 4 to the basic financial statements, the College adopted the provisions of Governmental Accounting Standards Board 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 College’s and Universities”; and GASB Statement No. 38 “Certain Financial Statement Note Disclosures”.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

INDEPENDENT AUDITOR'S REPORT (continued)

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of Management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

Our audit was performed for the purpose of forming an opinion on the financial statements of the College, taken as a whole. The accompanying Schedule of Expenditures of Federal Awards 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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.



GARY B. FINK & ASSOCIATES, INC.
Certified Public Accountants

October 22, 2003

NORTH CENTRAL STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

The Management's Discussion and Analysis (MD&A) of the financial condition of North Central State College provides an overview of the financial performance for the year ended June 30, 2003. This discussion has been prepared by management and should be read in conjunction with the accompanying financial statements and notes.

Using the Annual Report

This annual report consists of a series of financial statements, prepared in accordance with GASB 34/35. The financial statements have been restated to conform to the requirements 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 College's and Universities*. These financial statements differ significantly in both the form and the accounting principles utilized from prior financial statements presented. The financial statements presented in prior years focused on accountability of funds, while these statements focus on the financial condition of the College, the results of operations, and cash flows of the College as a whole.

The principal change to the previous fund balances as reported prior to the change to the GASB 34/35 requirements is the accounting for accumulated depreciation and depreciation expense for the first time. Beginning net assets decreased **\$6,236,921** due to restatement of accumulated depreciation and under evaluation of existing assets.

The College has elected to not restate prior periods for purposes of providing the comparative data for this MD&A. As this is the initial year of presentation in this format, comparative data to prior periods is not available. In addition, the College has elected not to include the North Central State College Foundation as a component unit until the reporting period ending June 30, 2004.

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 non-operating. State appropriations are now classified as non-operating revenues. Therefore, the College generated an operating loss. However, after including net non-operating revenue, the net assets increased by **\$1,919,211**. 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 capital and financing activities.

NORTH CENTRAL STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

The Statement of Net Assets

Condensed Financial Information

Statement of Net Assets

ASSETS

Current Assets	\$5,444,394
Non-current Assets	<u>18,514,388</u>
Total Assets	23,958,782

LIABILITIES

Current Liabilities	3,088,088
Non-current Liabilities	<u>928,109</u>
Total Liabilities	4,016,197

NET ASSETS

Invested in Capital Assets, Net of Related Debt	17,454,969
Restricted	989,669
Unrestricted	<u>1,497,947</u>
Total Net Assets	\$19,942,585

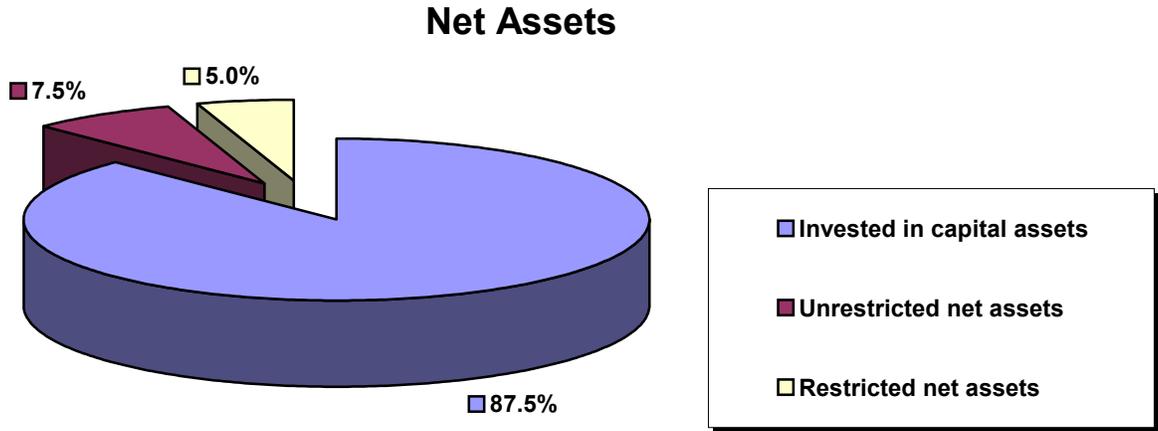
Assets

As of June 30, 2003, the College's total assets amounted to **\$23,958,782**. Investment in capital assets, net of depreciation totaled **\$17,830,442**, and represented the College's largest asset, totaling **74.4** percent of total assets. Student accounts receivable of **\$1,909,594** or **8.0** percent, represented the second largest asset. Cash and cash equivalents totaling **\$1,795,195** or **7.5** percent of total assets, were the College's next largest asset. Cash decreased **\$499,504** primarily as a result of the payment of the Kehoe Center related debt.

Liabilities

At June 30, 2003, the College's liabilities totaled **\$4,016,197**, comprised of current liabilities of **\$3,088,088** and non-current liabilities totaling **\$928,109**. Deferred revenue represented **\$2,254,906** or **56.1** percent of total liabilities. Total liabilities decreased during the year ended June 30, 2003 by **\$957,273**, due primarily to the payoff of the Kehoe Center Note Payable of **\$561,000** and the payoff of the Enskat property lease of **\$147,273**.

NORTH CENTRAL STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED



Net Assets

Net assets at June 30, 2003 totaled **\$19,942,585** or **83.2 percent** of total assets. Net assets invested in capital assets totaled **\$17,454,969** or **87.5 percent** of total net assets. Total net assets increased by **\$1,919,211** during the year ended June 30, 2003 even with the recognition of depreciation expense totaling **\$802,535**.

Restricted net assets totaled **\$989,669** or **5.0 percent** of total net assets. Of the total restricted net assets, **\$600,000** represents fund balance budgeted in FY 04, **\$354,661** restricted for capital projects and **\$35,008** restricted for grants. Unrestricted net assets totaled **\$1,497,947**, or **7.5 percent**.

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

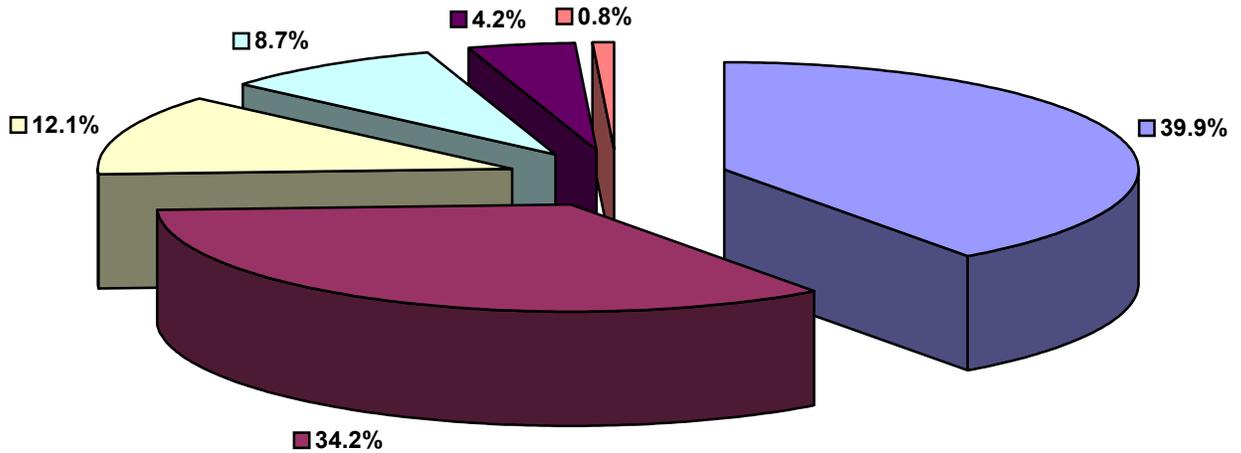
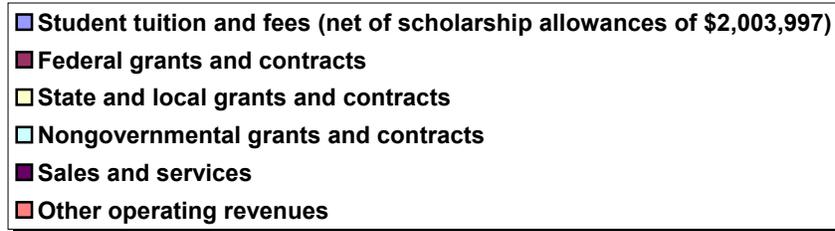
Condensed Financial Information

Statement of Revenues, Expenses, and Changes in Net Assets

Total Operating Revenue	\$12,628,379
Total Operating Expenses	<u>18,937,340</u>
Operating Loss	(6,308,961)
 Non-operating Revenues	 <u>8,126,359</u>
Income Before Other Revenues, Expenses, Gains, or Losses	1,817,398
 Total Other Revenue, Expenses, Gains, or Losses	 <u>101,813</u>
Increase in Net Assets	1,919,211
 Net Assets, End of Year	 <u><u>\$19,942,585</u></u>

NORTH CENTRAL STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

Operating Revenue



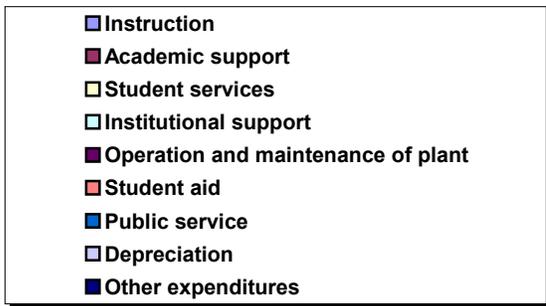
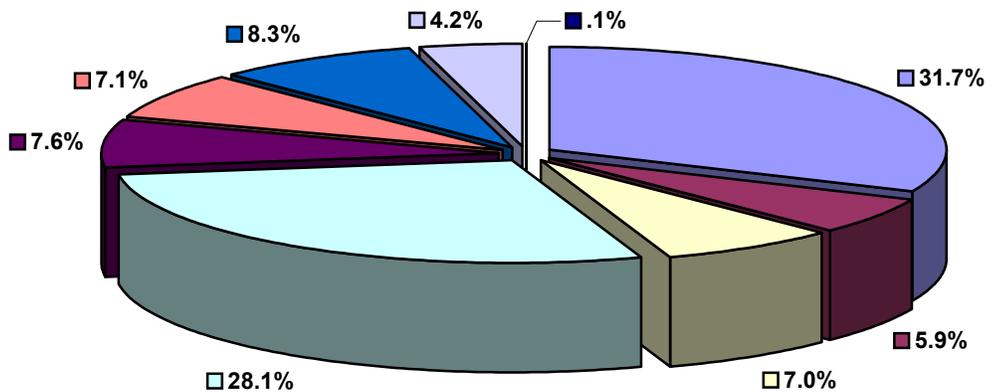
Total operating revenues were **\$12,628,379** for the year ended June 30, 2003. The most significant sources of operating revenue for the College are net student tuition and fees, **39.9** percent, federal grants and contracts, **34.2** percent, and state and local grants and contracts, **12.1** percent.

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. Income from student tuition and fees before the deduction of scholarship allowances did increase by **\$1,217,920** due to a **7.1** percent increase in full-time equivalent enrollment during the academic year and an average tuition and fee increase of **8.7** percent at the beginning of the fiscal year.

NORTH CENTRAL STATE COLLEGE
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003
 UNAUDITED

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 appropriation for the year ended June 30, 2003, amounted to **\$7,032,715**. This represents a decrease of **\$207,128** over the College's appropriation for the prior year. Gifts totaling **\$1,082,400** represents pledges made towards the Kehoe Center.

Operating Expenses



Operating expenses totaled **\$18,937,340**. The majority of the College's operating funds are expended directly for the primary mission of the College instruction, **31.7** percent, academic support, **5.9** percent, and institutional support, **28.1** percent. For the year ended June 30, 2003, student aid totaled **\$1,338,890** or **7.1** percent.

NORTH CENTRAL STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
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 statements 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 student tuition and fees **\$4,957,289** and grants and contracts **\$6,083,490**. The largest cash outflows for operating activities were to employees, for wages and benefits, **\$11,788,584**, to suppliers, **\$1,828,642**, and for utilities and maintenance, **\$1,822,963**.

The largest cash receipt in the non-capital financing activities group is the non-operating appropriation from the State of Ohio, **\$7,032,715**. Cash used by capital and related financing activities is expended on the construction and acquisition of capital assets, **\$2,108,379**.

Capital Assets

Capital assets, net of accumulated depreciation, totaled **\$17,830,442** at June 30, 2003, a net increase of **\$844,687** from the prior year-end. Additions to capital assets during the year totaled **\$2,646,237** and disposals totaled **\$1,665,119**. Depreciation expense for the year ended June 30, 2003 amounted to **\$802,535**. More detailed information about the College's capital assets is presented in the notes to the financial statements.

Debt

As of June 30, 2003, the College had debt outstanding of **\$288,857** for the Child Development Center facility. This represents a decrease of **\$31,025** from the previous year total of **\$319,882** due to principal payments. Other debt obligations reductions would include the payment of the Kehoe Center Note Payable **\$561,000** and Capital Lease payments of **\$182,158**. 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 the notes to the financial statements.

Management Philosophy

It is a primary goal of North Central State College to continually find ways to improve access to quality higher education and technology training for the communities we serve. Throughout Ohio, community and technical colleges are faced with challenges as we strive to meet that goal.

NORTH CENTRAL STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003
UNAUDITED

The fact is that, even during this time of economic challenge, enrollment is on the rise at two-year institutions of higher education across the state. North Central State College is no exception – our enrollment continues to increase each quarter. More than 93 percent of our graduates are employed in field-related jobs. More than 65 percent of the College's full-time faculty holds at least a master's degree. More students than ever are transferring to four-year institutions after completing their associate degree at North Central State College. We believe all of this speaks to the quality of education and training students receive at the College.

Factors Impacting Future Periods

Economic pressures affecting the State of Ohio have resulted in a significant shortfall in revenue for the fiscal years ended 2002 and 2003. This shortfall prompted the state to reduce the College's appropriations for FY 2002 by 6 percent and FY 2003 by nearly 3 percent. Although the state appropriations for FY 2004 are projected to be slightly higher than FY 2003, the College is proceeding with caution.

The College has approved tuition and fee increases averaging 5.9 percent starting Summer Quarter 2003. The College also has shown enrollment increases during the last two quarters of fiscal year 2003 and expects enrollment to remain flat for Fiscal Year 2004.

Final Analysis

North Central State College is determined to provide high quality and affordable education and to be the key provider of a highly skilled workforce for regional employers. To accomplish these goals, it has been imperative that the College be proactive in meeting growing enrollment at the same time being fiscally prepared due to the economic pressures being felt statewide. There has been and will be a direct relationship between the level of state support and the College's ability to control tuition growth as declines in state appropriations often result in increased tuition rates.

Enrollment has continued to grow significantly in fiscal year 2003; facilities are expanding to accommodate this growth. These are encouraging signs for a bright future. Our challenge is to accommodate this growth in a responsible, cost-effective manner.

Contacting the College's Financial Management

This financial report is designed to provide the Ohio Board of Regents, our citizens, taxpayers, and investors and creditors with a general overview of the College's finances and to 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 Services at 419-755-4817.

North Central State College
Statement of Net Assets
For the Fiscal Year Ended June 30, 2003

ASSETS

Current Assets:

Cash and cash equivalents	\$1,749,424
Student accounts receivable, net	1,909,594
Intergovernmental receivables	574,846
Other receivables	1,110,530
Grants receivable	100,000
Total Current Assets	<u>5,444,394</u>

Noncurrent Assets

Restricted cash and cash equivalents	45,771
Other receivables	493,175
Intergovernmental receivable	145,000
Capital assets, net	17,830,442
Total Noncurrent Assets	<u>18,514,388</u>

Total Assets \$23,958,782

LIABILITIES

Current Liabilities:

Accounts payable and accrued liabilities	\$868,421
Deferred income	2,109,906
Intergovernmental Payable	10,576
Long-term liabilities - current portion	99,185
Total Current Liabilities	<u>3,088,088</u>

Noncurrent Liabilities

Deferred income	145,000
Long-term liabilities	783,109
Total Noncurrent Liabilities	<u>928,109</u>

Total Liabilities 4,016,197

NET ASSETS

Invested in capital assets, net of related debt 17,454,969

Restricted for:

Expendable	
Instructional department uses	629,144
Capital projects	354,661
Other	5,864

Unrestricted 1,497,947

Total Net Assets 19,942,585

Total Liabilities And Net Assets \$23,958,782

See accompanying notes to the financial statements.

North Central State College
Statement of Revenues, Expenses and Changes in Net Assets
For the Fiscal Year Ended June 30, 2003

REVENUES

Operating Revenues:

Student tuition and fees (net of scholarship allowances of \$2,003,997)	\$5,048,525
Federal grants and contracts	4,320,676
State and local grants and contracts	1,529,409
Nongovernmental grants and contracts	1,104,016
Sales and services	526,130
Other operating revenues	99,623
Total Operating Revenues	<u>12,628,379</u>

EXPENSES

Operating Expenses:

Educational and General:

Instruction	6,003,330
Academic support	1,121,894
Student services	1,317,900
Institutional support	5,325,549
Operation and maintenance of plant	1,435,347
Student aid	1,338,890
Public service	1,580,940
Depreciation	802,535
Other operating expenses	10,955
Total Operating Expenses	<u>18,937,340</u>
Operating (Loss)	<u>(6,308,961)</u>

NONOPERATING REVENUES (EXPENSES)

State appropriations	7,032,715
Gifts	1,082,400
Investment income (net of investment expense)	36,714
Interest on capital asset-related debt	(34,478)
Other nonoperating revenues	9,008
Net Nonoperating Revenues	<u>8,126,359</u>
Income Before Other Revenues, Expenses, Gains, or Losses	1,817,398
Capital appropriations	562,970
Loss on disposal of capital assets	(461,157)
Total Other Revenues, Expenses, Gains, or Losses	<u>101,813</u>
Increase In Net Assets	1,919,211

NET ASSETS

Net Assets, Beginning of Year Restated, See Note 4	18,023,374
Net Assets, End of Year	<u><u>\$19,942,585</u></u>

See accompanying notes to the financial statements.

North Central State College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2003

CASH FLOWS FROM OPERATING ACTIVITIES:

Tuition and fees	\$4,957,289
Grants and contracts	6,083,490
Payments to suppliers	(1,828,642)
Payments to employees and for benefits	(11,788,584)
Payments for utilities and maintenance	(1,822,963)
Payments for student aid	(1,338,890)
Sales and service of educational activities	526,130
Other receipts (payments)	<u>(1,094,104)</u>

Net Cash (Used For) Operating Activities (6,306,274)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

State appropriations	7,032,715
Gifts and grants for other than capital purposes	9,008
FFEL loans received	2,084,580
FFEL loans disbursed	<u>(2,084,580)</u>

Net Cash Provided by Noncapital Financing Activities 7,041,723

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:

Capital appropriations	562,970
Capital grants and gifts received	1,082,400
Purchase of capital assets	(2,108,379)
Principal paid on capital debt and leases	(774,180)
Interest paid on capital debt and leases	<u>(34,478)</u>

Net Cash Provided by Capital and Related Financing Activities (1,271,667)

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest on investments	<u>36,714</u>
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Net Cash Provided by Investing Activities 36,714

Net (Decrease) in Cash (499,504)

Cash and Cash Equivalents - Beginning of Year 2,294,699

Cash and Cash Equivalents - End of Year \$1,795,195

RECONCILIATION OF NET OPERATING REVENUES (EXPENSES)

TO NET CASH (USED FOR) OPERATING ACTIVITIES:

Operating (loss)	(\$6,308,961)
Adjustments to Reconcile Net (Loss) to Net Cash (Used For)	
Operating Activities:	
Depreciation expense	802,535
Changes in Assets and Liabilities:	
Receivables, net	(640,281)
Prepaid expenses	23,524
Payables	20,265
Deferred income	(166,695)
Compensated absences	<u>(36,661)</u>

Net Cash (Used For) Operating Activities (\$6,306,274)

See accompanying notes to the financial statements.

NORTH CENTRAL STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

- A. Basis of Presentation – Effective July 1, 2002, the College adopted 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 College’s 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. 34/35 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. It replaces the fund group prospective previously required.
- 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 expense 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.

NORTH CENTRAL STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

D. Cash and Investments - For purposes of presentation on the Statement of Net Assets and purposes of 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 2003, investments were limited to STAR Ohio and overnight repurchase agreements. These investments are reported as cash equivalents on the Statement of Net Assets.

Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost.

E. Accounts Receivable – Receivables at June 30, 2003 consist primarily of student tuition and fees, pledges for 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 – Land, buildings, improvements and equipment are stated at original acquisition costs when such information was available. In cases when original costs were not practicably determinable, estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition. 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

NORTH CENTRAL STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 capital lease obligations and 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 criterion is met:

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

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

NORTH CENTRAL STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 either 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 accompanying Statement of Revenues, Expenses and Changes in Net Assets.

K. Scholarship Allowances – Student tuition and fees revenue are reported net of scholarship allowances in the accompanying 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 – 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 – Nonexpendable – Net assets subject to externally imposed stipulations that they be maintained in perpetuity by the College.

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.

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.

NORTH CENTRAL STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- 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.

3. ACCOUNTING CHANGES

Effective July 1, 2002, the College implemented 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*. The financial statement presentation required by these Statements is a single-column enterprise activity rather than the fund-group perspective previously reported. Significant accounting changes in order to comply with the new requirements include adopting depreciation and capital assets, reporting revenues net of discounts and allowances, eliminating interfund activities, classifying activities as operating or nonoperating, classifying assets and liabilities as current or noncurrent and prorating summer school activities to periods earned.

In addition, the College implemented GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. Changes in existing disclosures include more detailed information on obligations under leases. New disclosures include information on the major components of receivable and payable balances.

4. NET ASSET RESTATEMENT

The cumulative effect of applying GASB Statements No. 34/35 to the College’s financial statements is reported as a restatement of beginning net assets. The following is a reconciliation of the total June 30, 2002 net assets as previously reported to Net Assets – Beginning of Year Restated balance as reported on the Statement of Revenues, Expenses and Changes in Net Assets:

June 30, 2002 combined net assets as previously reported	\$24,260,295
Under valuation of existing assets	737,603
Accumulated depreciation	<u>(6,974,524)</u>
June 30, 2002 Net Assets - Restated	<u><u>\$18,023,374</u></u>

NORTH CENTRAL STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

5. 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, 2003, the College had \$2,030 in undeposited cash on hand which is reported as cash on the Balance Sheet.

C. Deposits

At June 30, 2003, the reported amount of the College's deposits was \$410,710 and the bank balance was \$809,524. Of the bank balance, \$145,149 was covered by federal depository insurance. Of the remaining balance, \$664,375 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 as defined by GASB Statement No. 3.

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.

NORTH CENTRAL STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

5. CASH AND CASH EQUIVALENTS (continued)

D. Investments

The College has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during the fiscal year ended June 30, 2003. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2003. At June 30, 2003, the fair value of STAR Ohio was \$1,382,455. Investments in STAR Ohio are not categorized by level of custodial credit risk since they are not evidenced by securities that exist in physical or book entry form.

E. Reconciliation

A reconciliation between the classifications of cash and cash equivalents and investments on the financial statements and the classifications of deposits and investments presented above per GASB Statement No. 9 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$1,795,195	\$0
Cash on Hand	(2,030)	0
Investments: STAR Ohio	(1,382,455)	1,382,455
GASB Statement No. 3	\$410,710	\$1,382,455

6. RECEIVABLES

Receivables as of June 30, 2003 are summarized as follows:

	Gross Receivable	Allowance for Doubtful Accounts	Net Receivable	Deferred Income
Student Accounts	\$2,042,790	\$133,196	\$1,909,594	\$1,805,842
Intergovernmental	574,846	0	574,846	0
Grants	245,000	0	245,000	245,000
Pledges on Kehoe Center	806,300	0	806,300	0
Post Secondary Education	431,035	0	431,035	204,064
Personnel Reimbursements	102,903	0	102,903	0
General Motors Training	135,263	0	135,263	0
Other	128,204	0	128,204	0
Total Receivables	\$4,466,341	\$133,196	\$4,333,145	\$2,254,906

NORTH CENTRAL STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

7. CAPITAL ASSETS

Capital assets as of June 30, 2003 are summarized as follows:

	<u>Balance</u> <u>07/01/2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>06/30/2003</u>
<u>Cost</u>				
Land	\$278,629	\$0	(\$53,000)	\$225,629
Land Improvements	764,984	0	(40,000)	724,984
Buildings	15,732,049	0	(923,020)	14,809,029
Building Improvements	427,383	439,132	(347,000)	519,515
Infrastructure	208,655	0	0	208,655
Leasehold Improvements	1,349,359	111,583	0	1,460,942
Equipment	3,633,978	982,507	(154,102)	4,462,383
Construction in Progress	1,565,242	1,113,015	(147,997)	2,530,260
 Total Cost of Capital Assets	 <u>\$23,960,279</u>	 <u>\$2,646,237</u>	 <u>(\$1,665,119)</u>	 <u>\$24,941,397</u>
<u>Accumulated Depreciation</u>				
Land Improvements	\$290,776	\$35,982	(\$26,001)	\$300,757
Buildings	3,068,264	401,242	(360,013)	3,109,493
Building Improvements	132,133	10,065	(125,988)	16,210
Infrastructure	29,220	8,346	0	37,566
Leasehold Improvements	501,837	64,832	0	566,669
Equipment	2,952,294	282,068	(154,102)	3,080,260
 Total Accumulated Depreciation	 <u>\$6,974,524</u>	 <u>\$802,535</u>	 <u>(\$666,104)</u>	 <u>\$7,110,955</u>
 Capital Assets, Net	 <u>\$16,985,755</u>	 <u>\$1,843,702</u>	 <u>(\$999,015)</u>	 <u>\$17,830,442</u>

8. STATE SUPPORT

The College is a state-assisted institution of higher education which 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.

NORTH CENTRAL STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

8. STATE SUPPORT (continued)

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 Balance Sheet. 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.

9. 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 (STRS Ohio) and nonacademic personnel participate in the School Employees Retirement System (SERS Ohio).

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. STAR 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.

NORTH CENTRAL STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

9. DEFINED BENEFIT PENSION PLANS (continued)

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB Plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to 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. 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, 2003, plan members were required to contribute 9.3 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 fiscal years ended June 30, 2003, 2002 and 2001 were \$451,671, \$400,513 and \$424,289 respectively; equal to the required contribution for each fiscal year.

NORTH CENTRAL STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

9. DEFINED BENEFIT PENSION PLANS (continued)

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. SERS Ohio 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 nine 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 2003, 8.17 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's Retirement Board. The College's contributions for pension obligations to SERS Ohio for the fiscal years ended June 30, 2003, 2002 and 2001 were \$206,157, \$135,892 and \$176,072 respectively equal to the required contributions for each fiscal year.

10. 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, 2003, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the College, this amount equaled \$145,180 during fiscal 2003.

NORTH CENTRAL STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

10. POSTEMPLOYMENT BENEFITS (continued)

The balance in the Health Care Reserve Fund was \$3.256 billion at June 30, 2002 (latest information available). For the year ended June 30, 2002, net health care costs paid by STRS Ohio were \$300,772,000, and STRS Ohio had 102,132 eligible benefit recipients statewide.

The Ohio Revised Code gives SERS Ohio discretionary authority to provide postretirement health care. Coverage is made available to service retirees with ten or more years of qualifying service credit, and disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

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, 2003, the allocation rate is 9.8 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 2003, the minimum pay has been established at \$12,400. 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.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available), were \$161,439,934 and the target level was \$211.0 million. At June 30, 2002, SERS Ohio had net assets available for payment of health care benefits of \$242.2 million. SERS Ohio has approximately 50,000 benefit recipients statewide currently receiving health care benefits. For the College, the amount to fund health care benefits, including the surcharge, equaled \$85,850 during the 2003 fiscal year.

11. LONG-TERM LIABILITIES

Changes in long-term liabilities are as follows:

	Balance 07/01/2002	Additions	Reductions	Balance 06/30/2003	Current Portion
Compensated Absences	\$543,481	\$0	(\$36,661)	\$506,820	\$24,241
Note Payable	561,000	0	(561,000)	0	0
Bond Payable	319,882	0	(31,025)	288,857	33,185
Capital Lease Payable	268,774	0	(182,157)	86,617	41,759
Total Long-Term Liabilities	<u>\$1,693,137</u>	<u>\$0</u>	<u>(\$810,843)</u>	<u>\$882,294</u>	<u>\$99,185</u>

NORTH CENTRAL STATE COLLEGE
 NOTES TO FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2003

12. BONDS PAYABLE

Bonds payable at June 30, 2003 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, excluding interest payments of \$76,187, is as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2004	\$33,185
2005	35,508
2006	37,993
2007	40,653
2008	43,499
2009 - 2010	<u>98,019</u>
Total	<u><u>\$288,857</u></u>

13. LEASES

In December, 1996, the College entered into a capital lease agreement for the construction of a new building. The lease required monthly principal and interest payments of \$5,272 through fiscal year 2004. The full amount of the lease was paid off during fiscal year 2003.

In July, 2000, the College entered into a capital lease agreement for the purchase of a new phone system. The phone system was capitalized at \$198,600. The lease requires monthly principal and interest payments of \$3,855 through fiscal year 2005.

Future minimum lease payments for the phone system as of June 30, 2003 are as follows:

2004	\$46,622
2005	<u>46,622</u>
Total	93,244
Less amount representing interest	<u>(6,627)</u>
Net capital lease obligations	<u><u>\$86,617</u></u>

NORTH CENTRAL STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

13. LEASES (continued)

The College leases certain equipment accounted for as operating leases. Future minimum annual rental payments required under these operating leases of each fiscal year ending June 30 are as follows:

2004	\$191,214
2005	187,206
2006	140,020
2007	134,051
2008	<u>67,025</u>
Total	<u><u>\$719,516</u></u>

14. LINE OF CREDIT

The College has a line of credit with Richland Trust Company (Richland Bank) in the amount of \$1,100,000 to finance ongoing improvements at the Kehoe Center with payments being made from prior pledge commitments. Activity for the fiscal year ended June 30, 2003 was as follows:

<u>Beginning</u> <u>Balance</u>	<u>Draws</u>	<u>Repayments</u>	<u>Ending</u> <u>Balance</u>
\$0	\$70,000	(\$70,000)	\$0

15. OPERATING EXPENSES BY FUNCTION AND NATURAL CLASS

	<u>Payroll and</u> <u>Benefits</u>	<u>Supplies and</u> <u>Other</u> <u>Services</u>	<u>Utilities and</u> <u>Maintenance</u>	<u>Student Aid</u> <u>and</u> <u>Scholarship</u>	<u>Depreciation</u> <u>Expense</u>	<u>Other</u> <u>Expense</u>	<u>Totals</u>
Instruction	\$5,545,800	\$357,882	\$0	\$0	\$0	\$99,648	\$6,003,330
Academic Support	1,003,453	34,292	0	0	0	84,149	1,121,894
Student Services	1,219,088	61,837	0	0	0	36,975	1,317,900
Institutional Support	2,280,533	641,762	1,534,468	0	0	868,786	5,325,549
Operation and Maintenance of Plant	555,608	484,938	283,553	0	0	111,248	1,435,347
Student Aid	0	0	0	1,338,890	0	0	1,338,890
Public Service	1,159,160	272,508	1,859	0	0	147,413	1,580,940
Depreciation	0	0	0	0	802,535	0	802,535
Other	0	0	0	0	0	10,955	10,955
Totals	<u><u>\$11,763,642</u></u>	<u><u>\$1,853,219</u></u>	<u><u>\$1,819,880</u></u>	<u><u>\$1,338,890</u></u>	<u><u>\$802,535</u></u>	<u><u>\$1,359,174</u></u>	<u><u>\$18,937,340</u></u>

NORTH CENTRAL STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

16. 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 currently not a party to any legal proceedings.

17. 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.

18. RELATED ORGANIZATIONS

The North Central State College Foundation, Inc. (the Foundation) is a not-for-profit organization which operates under a separate board exclusively for the benefit of the College and is therefore not included in the College's June 30, 2003 financial statements. At June 30, 2003, the total net assets of the Foundation, not included in the financial statements of the College, were \$2,205,786.

19. NEW ACCOUNTING PRONOUNCEMENTS

In May 2002, GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units – an amendment of GASB Statement No. 14* was issued. This statement provides additional guidance to determine whether certain organizations, such as not-for-profit foundations, for which the primary institution is not financially accountable, should be reported as a component unit based on the nature and significance of their relationship with the primary entity. Generally, this statement requires reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of an institution. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2003. The College believes, based on a preliminary assessment of the statement, that the North Central State College Foundation will be included as a component unit of the College in its financial statements beginning in fiscal year 2004.

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

Board of Trustees
North Central State College
2441 Kenwood Circle, Box 698
Mansfield, Ohio 44903

We have audited the basic financial statements of the North Central State College (the College), as of and for the year ended June 30, 2003, and have issued our report thereon dated October 22, 2003 wherein we noted the College adopted Governmental Accounting Standards Board Statements No. 34, No. 35 and No. 38. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (continued)

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



GARY B. FINK & ASSOCIATES, INC.
Certified Public Accountants

October 22, 2003

**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, Box 698
Mansfield, Ohio 44903

Compliance

We have audited the compliance of the 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, 2003. The College's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

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

In our opinion, North Central State 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, 2003.

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

Internal Control Over Compliance

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

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

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



GARY B. FINK & ASSOCIATES, INC.

Certified Public Accountants

October 22, 2003

North Central State College
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2003

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Receipts	Disbursements
<u>U.S. Department of Education</u>				
Federal Student Financial Assistance Cluster:				
Supplemental Educational Opportunity Grant	84.007	----	\$119,736	\$123,457
Federal Family Education Loan Program	84.032	----	2,084,580	2,084,580
College Work Study	84.033	----	94,499	111,945
Pell Grant	84.063	----	<u>2,728,913</u>	<u>2,936,801</u>
Total Student Financial Assistance Programs Cluster			<u>5,027,728</u>	<u>5,256,783</u>
Child Care Access Means Parents In School	84.335A	JD33351	11,666	10,854
Fund for the Improvement of Postsecondary Education	84.116Z	P116Z020132	99,958	99,958
<i>Passed Through the Ohio Department of Education:</i>				
Vocational Education - Perkins Basic Grant 01-02	84.048	VECPHII-P2002-505	32,555	0
Vocational Education - Perkins Basic Grant 02-03	84.048	VECPHII-P2003-505	62,533	117,113
Vocational Education - Curriculum Material	84.048	VECM-2003-CTPEA	<u>21,250</u>	<u>13,044</u>
Total Vocational Education			<u>116,338</u>	<u>130,157</u>
Tech-Prep Education	84.243	VETP-2002-06-FB	85,529	1,900
Tech-Prep Education	84.243	VETP-2003-06-FB	<u>48,146</u>	<u>144,852</u>
Total Tech-Prep Education			<u>133,675</u>	<u>146,752</u>
WIA Adult Program - Higher Skills Partnership Grant	17.258	063554-WF-HS-2003	4,456	4,456
Total U.S. Department of Education			<u>5,393,821</u>	<u>5,648,960</u>
<u>U.S. Small Business Administration</u>				
<i>Passed Through the Ohio Department of Development</i>				
Small Business Development Center	59.037	ECDD 02-109	70,215	41,864
Small Business Development Center	59.037	ECDD 03-059	<u>51,389</u>	<u>51,389</u>
Total U.S. Small Business Administration			<u>121,604</u>	<u>93,253</u>
<u>U.S. Department of Labor</u>				
<i>Passed Through the Ohio Bureau of Employment Services:</i>				
Trade Adjustment Assistance - Worker's	17.245	70502-038	<u>30,812</u>	<u>30,812</u>
Total U.S. Department of Labor			<u>30,812</u>	<u>30,812</u>
<u>U.S. Department of Health and Human Services</u>				
Head Start 01-02	93.600	05YC0061/04	57,979	20,700
Head Start 02-03	93.600	05YC0061/05	<u>393,035</u>	<u>458,078</u>
Total Head Start			<u>451,014</u>	<u>478,778</u>
<i>Passed Through the Richland County Department of Job & Family Services:</i>				
Temporary Assistance for Needy Families (Success in Academics)	93.558	621	<u>134,156</u>	<u>78,438</u>
Total Temporary Assistance for Need Families			<u>134,156</u>	<u>78,438</u>
Total U.S. Department of Health and Human Services			<u>585,170</u>	<u>557,216</u>
<u>U.S. Department of Agriculture</u>				
<i>Passed Through the Ohio Department of Education:</i>				
Child Care Food Program	10.558	21-CC-02	543	543
Child Care Food Program	10.558	21-CC-03	1,711	1,711
Child Care Food Program	10.558	21-ML-02	7,360	7,360
Child Care Food Program	10.558	21-ML-03	<u>24,615</u>	<u>24,615</u>
Total U.S. Department of Agriculture			<u>34,229</u>	<u>34,229</u>
Total Federal Assistance			<u>\$6,165,636</u>	<u>\$6,364,470</u>

The notes to this Schedule are an integral part of this Schedule.

NORTH CENTRAL STATE COLLEGE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NORTH CENTRAL STATE COLLEGE

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §505**

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of auditor's report issued on the financial statements	Unqualified Opinion
(d)(1)(ii)	Were there any material weaknesses in internal control reported at the financial statement level?	No
(d)(1)(ii)	Were there any other reportable conditions in internal control reported at the financial statement level?	No
(d)(1)(iii)	Was there any material noncompliance reported at the financial statement level?	No
(d)(1)(iv)	Were there any material weaknesses in internal control over major programs reported?	No
(d)(1)(iv)	Were there any other reportable conditions in internal control over major programs reported?	No
(d)(1)(v)	Type of auditor's report issued on compliance for major programs	Unqualified Opinion
(d)(1)(vi)	Were there any reportable audit findings under §510?	No

NORTH CENTRAL STATE COLLEGE

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §505**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2003
(CONTINUED)**

(d)(1)(vii)	Major Programs:	Student Financial Assistance Programs Cluster: Federal Work-Study Program, CFDA #84.033; Federal Supplemental Educational Opportunity Grants, CFDA #84.007; 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

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

None

3. FINDINGS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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P.O. Box 1140
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800-282-0370

Facsimile 614-466-4490

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
DECEMBER 18, 2003**