

North Central State College

Single Audit

July 1, 2003 through June 30, 2004

Fiscal Year Audited Under GAGAS: 2004

BALESTRA, HARR & SCHERER, CPAs, INC.

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Piketon, Ohio 45661

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**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 Balestra, Harr & Scherer, CPAs, Inc. for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

January 13, 2005

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NORTH CENTRAL STATE COLLEGE

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

REPORT OF INDEPENDENT ACCOUNTANTS

Board of Trustees
North Central State College
2441 Kenwood Circle
Mansfield, OH 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, 2004, 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 basic 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 business-type activities and the discretely presented component unit of the College, as of June 30, 2004, 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 December 20, 2004 on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 3-9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of federal awards expenditures has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

As described in Note 3 to the basic financial statements, the College implemented Governmental Accounting Standards Board Statement Number 39, *Determining Whether Certain Organizations Are Component Units – an amendment of GASB Statement No. 14 (May 2002)*.

Balestra, Harr & Scherer, CPAs, Inc.

Balestra, Harr & Scherer, CPAs, Inc.
December 20, 2004

NORTH CENTRAL STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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, 2004. 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. Therefore, the College generated an operating loss. However, after including net non-operating revenue, the net assets increased by \$1,218,000. 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.

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.

NORTH CENTRAL STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

The Statement of Net Assets

Condensed Financial Information

Statement of Net Assets

| | <u>2004</u> | <u>2003*</u> |
|---|--------------|--------------|
| ASSETS | | |
| Current Assets | \$5,148,973 | \$5,495,971 |
| Non-current Assets | 19,887,059 | 18,509,424 |
| Total Assets | 25,036,032 | 24,005,395 |
| LIABILITIES | | |
| Current Liabilities | 3,095,493 | 3,088,088 |
| Non-current Liabilities | 733,341 | 928,109 |
| Total Liabilities | 3,828,834 | 4,016,197 |
| NET ASSETS | | |
| Invested in Capital Assets, Net of Related Debt | 18,148,867 | 17,450,005 |
| Restricted | 175,084 | 989,669 |
| Unrestricted | 2,883,247 | 1,549,524 |
| Total Net Assets | \$21,207,198 | \$19,989,198 |

*As Restated, for information regarding restatement of net assets, refer to Note 3 to the financial statements.

Assets

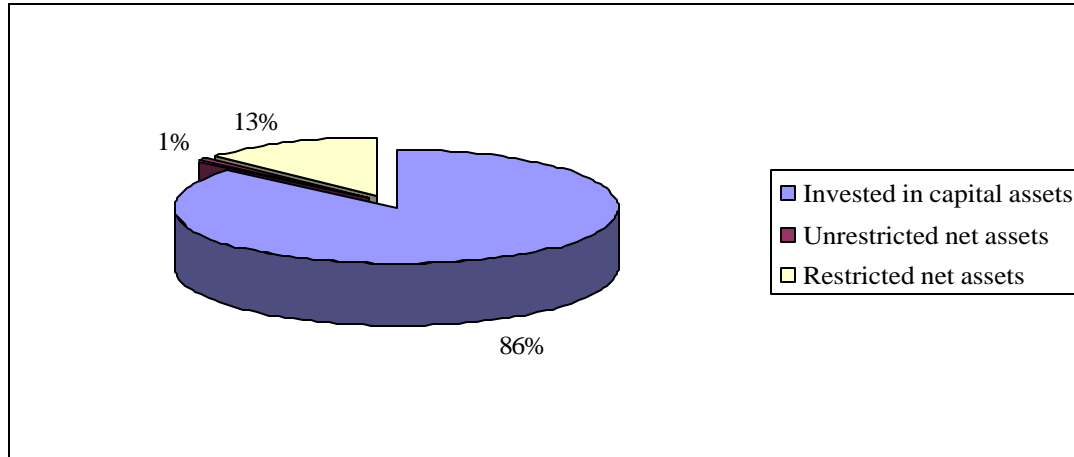
As of June 30, 2004, the College's total assets amounted to \$25,036,032. Investment in capital assets, net of depreciation totaled \$18,449,429 represented the College's largest asset, totaling 74 percent of total assets. Cash and cash equivalents totaling \$2,484,220 or 10 percent of total assets, were the College's second largest asset. Cash and cash equivalents increased \$689,025. Student accounts receivable of \$2,267,966 or 9 percent, represented the next largest asset.

Liabilities

At June 30, 2004, the College's liabilities totaled \$3,828,834, comprised of current liabilities of \$3,095,493 and non-current liabilities totaling \$733,341. Deferred revenue represented \$2,409,655 or 63 percent of total liabilities. Total liabilities decreased during the year ended June 30, 2004 by \$187,363.

NORTH CENTRAL STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Net Assets



Net Assets

Net assets at June 30, 2004 totaled \$21,207,198 or 85 percent of total assets. Net assets invested in capital assets totaled \$18,148,867 or 85 percent of total net assets. Total net assets increased by \$1,218,000 during the year ended June 30, 2004 even with the recognition of depreciation expense totaling \$924,388.

Restricted net assets totaled \$175,084 or 1 percent of total net assets. Of the total restricted net assets, \$167,201 restricted for capital projects and \$7,883 restricted for grants. Unrestricted net assets totaled \$2,883,247, or 13 percent.

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

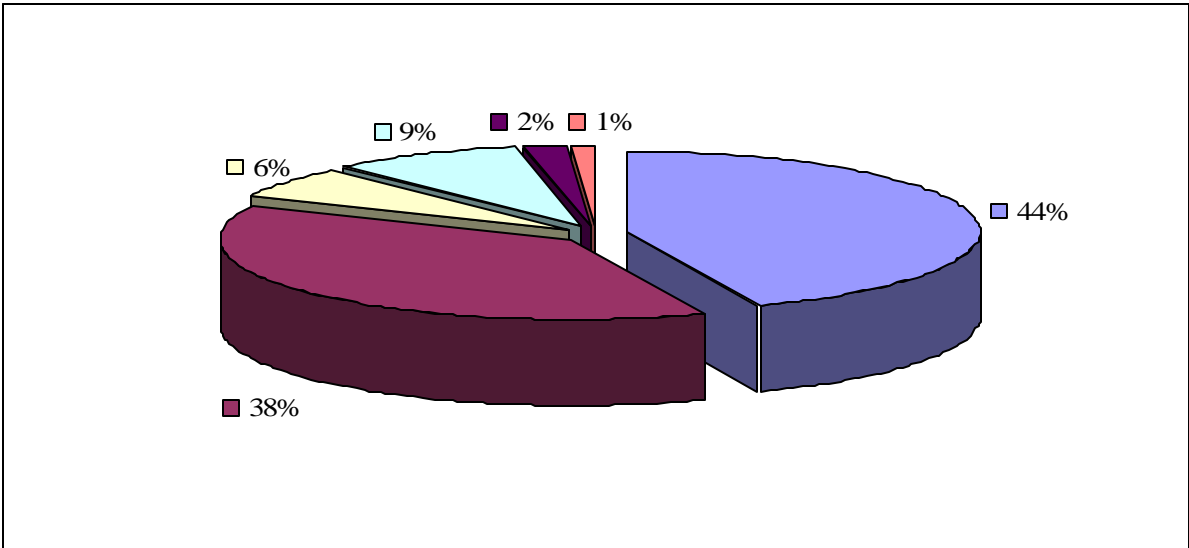
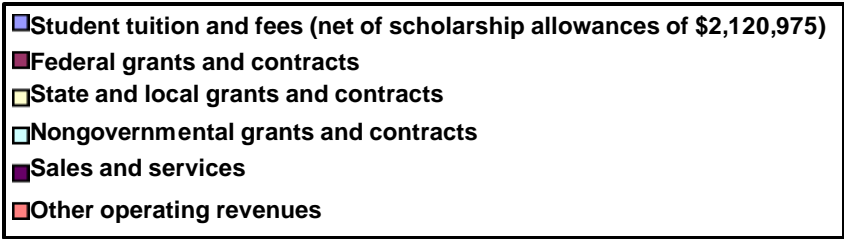
**Condensed Financial Information
Statement of Revenues, Expenses, and Changes in Net Assets**

| | <u>2004</u> | <u>2003*</u> |
|--|----------------------------|----------------------------|
| Total Operating Revenue | \$12,414,658 | \$12,679,956 |
| Total Operating Expenses | 19,744,919 | 18,932,376 |
| Operating Loss | <u>(7,330,261)</u> | <u>(6,252,420)</u> |
| Non-Operating Revenues | 7,367,386 | 8,126,359 |
| Income Before Other Revenues, Gains or Losses | <u>37,125</u> | <u>1,873,939</u> |
| Total Other Revenue, Expenses, Gains or Losses | 1,180,875 | 101,813 |
| Increase in Net Assets | <u>1,218,000</u> | <u>1,975,752</u> |
| Net Assets, End of Year | <u><u>\$21,207,198</u></u> | <u><u>\$19,989,198</u></u> |

*As Restated, for more information regarding restatement of net assets, refer to Note 3 to the Financial Statements.

NORTH CENTRAL STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

OPERATING REVENUES

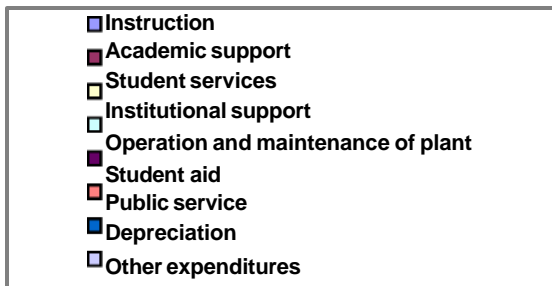
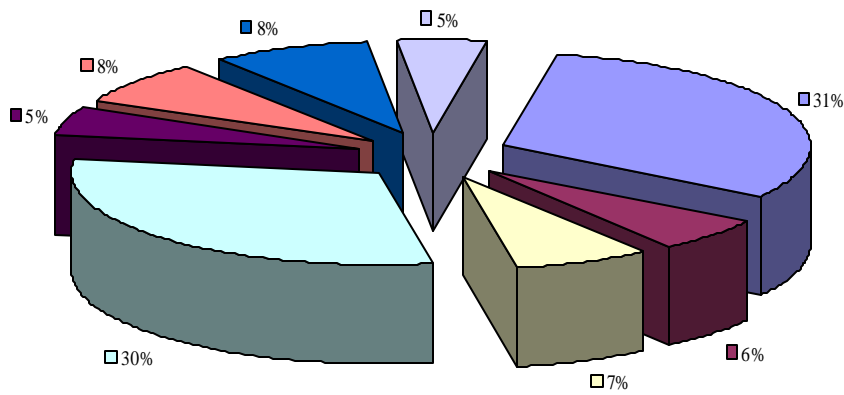


Total operating revenues were \$12,414,658 for the year ended June 30, 2004. The most significant sources of operating revenue for the College are net student tuition and fees, 44 percent, federal grants and contracts, 38 percent, and state and local grants and contracts, 6 percent.

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 \$395,867 due to an average tuition and fee increase of 10 percent at the beginning of the fiscal year.

NORTH CENTRAL STATE COLLEGE
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004
 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, 2004, amounted to \$7,153,162. This represents a increase of \$120,447 over the College's appropriation for the prior year. Gifts totaling \$205,567 represents pledges made towards the Kehoe Center.



Operating expenses totaled \$19,744,919. The majority of the College's operating funds are expended directly for the primary mission of the College instruction, 31 percent, academic support, 6 percent, and institutional support, 30 percent. For the year ended June 30, 2004, student aid totaled \$1,474,460 or 7 percent.

NORTH CENTRAL STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
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 grants and contracts \$6,680,135 and student tuition and fees \$5,240,769. The largest cash outflows for operating activities were to employees, for wages and benefits, \$11,919,821, for utilities and maintenance, \$2,031,023, and to suppliers, \$2,356,237.

The largest cash receipt in the non-capital financing activities group is the non-operating appropriation from the State of Ohio, \$7,153,162. Cash used by capital and related financing activities is expended on the construction and acquisition of capital assets, \$1,496,761.

Capital Assets

Capital assets, net of accumulated depreciation, totaled \$18,449,429 at June 30, 2004, a net increase of \$623,950 from the prior year-end. Additions to capital assets during the year totaled \$5,519,837 and disposals totaled \$3,986,741. Depreciation expense for the year ended June 30, 2004 amounted to \$924,388. More detailed information about the College's capital assets is presented in the notes to the financial statements.

Debt

As of June 30, 2004, the College had debt outstanding of \$255,704 for the Child Development Center facility. This represents a decrease of \$33,153 from the previous year total of \$288,857 due to principal payments. Other debt obligations reductions would include the payment of Capital Lease payments of \$41,759. 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 note 10 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. The fact that, even during this time of economic challenge, enrollment has remained steady. More students than ever are transferring to four-year institutions after completing their associate's degree at North Central State College. We believe all of this speaks to the quality of education and training students receive at the College.

NORTH CENTRAL STATE COLLEGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED

Factors Impacting Future Periods

Economic pressures affecting the State of Ohio have resulted in a significant shortfall in revenue for the fiscal years ended 2003 and 2004. Due to declining economic growth and increased demand for state resources, the College is expecting limited increases in state appropriations in FY '05 and FY' 06.

The College has approved tuition and fee increases averaging 9.9 percent starting Summer Quarter 2004, 3.9 % of this increase will fund technology replacement needs and low-income scholarships. In spite of a recent tuition increase, the College's tuition of \$73.30 per credit hour is the lowest of all technical colleges in the state of Ohio. The College expects enrollment to remain flat for fiscal year 2005.

Financial 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 enrollment trends while 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.

The College will continue to seek other funding sources. Grants are being pursued to supplement the operating budget, and a new addition is being added to the James W. Kehoe Center for Advanced Learning for training opportunities in the Tool and Die industry. This addition will be built by a \$562,000 grant from the Richland County Commissioners and over one million dollars of equipment will be donated by the General Motors Corporation.

This past year, the President and the Board of Trustees began to develop a new strategic plan for the College. Strategic issues were identified and have become the basis for the development of four key points for strategic direction. These key points, *Resource Development*, *Academic Program Direction*, *Student Support Enhancement*, and *Operations Alignment* will become the foundation for the College's new strategic plan.

There are encouraging signs for a bright future. The overall financial position of the College is strong, and the College has demonstrated improvement in its financial condition since the beginning of the year. Debt has been reduced, cash reserves have increased, revenues expanded, and expenses have been constrained. The College's enrollment, reserves, and cash position are sufficient to endure continued economic downturns.

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 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 and Administrative Services at 419-755-4817.

North Central State College
Statement of Net Assets
June 30, 2004

| ASSETS | Primary | Component |
|--|--------------------|------------------|
| Current Assets | Institution | Unit |
| Cash & cash equivalents | \$2,441,735 | \$125,929 |
| Investments | 0 | 1,556,187 |
| Student accounts receivable, net | 2,267,966 | 0 |
| Intergovernmental receivables | 439,272 | 0 |
| Contributions Receivable | 0 | 148,881 |
| Deferred Expense | 0 | 26,947 |
| Emergency Loan Receivable | 0 | 791 |
| Interest in Assets held by Richland Co. Foundation | 0 | 250,000 |
| Total current assets | 5,148,973 | 2,108,735 |
| Noncurrent Assets | | |
| Restricted cash & cash equivalents | 42,485 | 0 |
| Intergovernmental receivables | 145,000 | 0 |
| Contributions receivable | 0 | 52,223 |
| Other receivables | 1,250,145 | 0 |
| Capital assets, net | 18,449,429 | 351 |
| Total noncurrent assets | 19,887,059 | 52,574 |
| Total assets | \$25,036,032 | \$2,161,309 |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts Payable and Accrued Liabilities | \$161,541 | \$22,656 |
| Deferred Income | 2,409,655 | 6,225 |
| Due to Grantors | 16,250 | 0 |
| Accrued Wages | 401,908 | 0 |
| Long-term liabilities - current portion | 106,139 | 0 |
| Total current liabilities | 3,095,493 | 28,881 |
| Noncurrent Liabilities | | |
| Long-term liabilities | 733,341 | 0 |
| Total noncurrent liabilities | 733,341 | 0 |
| Total liabilities | 3,828,834 | 28,881 |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 18,148,867 | 351 |
| Restricted for | | |
| Nonexpendable | | |
| Scholarshipts | 0 | 768,209 |
| Expendable | | |
| Student Grants and Scholarships | 0 | 511,662 |
| Capital Projects | 167,201 | 0 |
| Other | 7,883 | 0 |
| Unrestricted | 2,883,247 | 852,206 |
| Total net assets | 21,207,198 | 2,132,428 |
| Total liabilities and net assets | \$25,036,032 | \$2,161,309 |

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, 2004

| REVENUES | Primary Institution | Component Unit |
|---|--------------------------------|---------------------------|
| Operating Revenues: | | |
| Student tuition and fees (net of scholarship allowances of \$2,120,975) | \$5,444,392 | \$0 |
| Federal grants and contracts | 4,698,455 | 0 |
| State and local grants and contracts | 700,064 | 0 |
| Nongovernmental grants and contracts | 1,046,042 | 0 |
| Sales and services | 444,280 | 0 |
| Contributions | 0 | 207,573 |
| Fundraising | 0 | 154,257 |
| Other operating revenues | 81,425 | 19,050 |
| Total operating revenues | 12,414,658 | 380,880 |
| EXPENSES | | |
| Operating Expenses: | | |
| Educational and general: | | |
| Instruction | 6,231,521 | 0 |
| Academic support | 1,170,404 | 46,313 |
| Student services | 1,403,612 | 0 |
| Institutional support | 5,922,250 | 0 |
| Operation and maintenance of plant | 969,917 | 0 |
| Student aid | 1,474,460 | 56,300 |
| Public service | 1,648,367 | 0 |
| Depreciation | 924,388 | 348 |
| Other expenditures | 0 | 486,888 |
| Total operating expenses | 19,744,919 | 589,849 |
| Operating income (loss) | (7,330,261) | (208,969) |
| NONOPERATING REVENUES (EXPENSES) | | |
| State appropriations | 7,153,162 | 0 |
| Gifts | 205,567 | 0 |
| Investment income, net | 33,777 | 135,611 |
| Interest on capital asset-related debt | (25,120) | 0 |
| Net Nonoperating Revenues (Expenses) | 7,367,386 | 135,611 |
| Income Before Other Revenues, Expenses, Gains, or Losses | 37,125 | (73,358) |
| Capital grants and gifts | 1,180,875 | 0 |
| Total other revenues, expenses, gains, or losses | 1,180,875 | 0 |
| Increase/(Decrease) in net assets | 1,218,000 | (73,358) |
| NET ASSETS | | |
| Net Assets, Beginning of Year (as Restated, See Note 3) | 19,989,198 | 2,205,786 |
| Net Assets, End of Year | \$21,207,198 | \$2,132,428 |

See accompanying notes to the basic financial statements.

North Central State College
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2004

| | <u>Primary Institution</u> |
|---|---------------------------------------|
| <u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u> | |
| <i>Cash Flows from Operating Activities:</i> | |
| Tuition and fees | \$ 5,240,769 |
| Grants and contracts | 6,680,135 |
| Payments to suppliers | (2,356,237) |
| Payments to employees and for benefits | (11,919,821) |
| Payments for utilities and maintenance | (2,031,023) |
| Payments for student aid | (1,474,460) |
| Sales and service of educational activities | 444,280 |
| Other receipts (payments) | (871,206) |
| Net cash used by operating activities | <u>(6,287,563)</u> |
| <i>Cash Flows from Non-Capital and Related Financing Activities:</i> | |
| FFEL Loans received | 2,293,859 |
| FFEL Loans disbursed | (2,293,859) |
| Gifts and grants for other than capital purposes | 205,567 |
| State appropriations | 7,153,162 |
| Net cash provided by non-capital and related financing activities | <u>7,358,729</u> |
| <i>Cash Flows from Capital and Related Financing Activities:</i> | |
| Capital Appropriations used to purchase capital assets | 1,180,875 |
| Additional Purchases of capital assets | (1,496,761) |
| Interest paid on capital debt and leases | (25,120) |
| Principal paid on capital debt and leases | (74,912) |
| Net cash provided by capital and related financing activities | <u>(415,918)</u> |
| <i>Cash Flows from Investing Activities:</i> | |
| Interest on investments | 33,777 |
| Net cash provided by investing activities | <u>33,777</u> |
| Net increase in cash and cash equivalents | 689,025 |
| Cash and Cash Equivalents, beginning of year | <u>1,795,195</u> |
| Cash and Cash Equivalents, end of year | <u><u>\$ 2,484,220</u></u> |
| <u>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u> | |
| Operating loss | (7,330,261) |
| Adjustments to reconcile operating loss to net cash provided (used) by operating activities: | |
| Depreciation | 924,387 |
| Change in Assets and Liabilities: | |
| Receivables, net | 230,762 |
| Payables | (299,298) |
| Deferred revenue | 154,749 |
| Compensated absences | 32,098 |
| Net cash used by operating activities | <u><u>\$ (6,287,563)</u></u> |

See accompanying notes to the basic financial statements.

**NORTH CENTRAL STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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 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.

**NORTH CENTRAL STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 2 – SUMMARY OF ACCOUNTING POLICIES (Continued)

- 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.
- 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 2004, 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, 2004 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.

**NORTH CENTRAL STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 2 – SUMMARY OF ACCOUNTING POLICIES (Continued)

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.

NORTH CENTRAL STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

NOTE 2 – SUMMARY OF ACCOUNTING POLICIES (Continued)

I. Compensated Absences

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:

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

J. 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 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.

**NORTH CENTRAL STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 2 – SUMMARY OF ACCOUNTING POLICIES (Continued)

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.

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- NET ASSET RESTATEMENT/CHANGE IN ACCOUNTING PRINCIPLE

Allowance for doubtful accounts and capital assets were erroneously reported in the prior year. The effect of these errors is as follows:

| | |
|--|---------------------|
| June 30, 2003 Net Assets as previously reported | \$19,942,585 |
| Allowance for Doubtful Accounts | 51,577 |
| Adjustment to Capital Assets, Net of Accumulated depreciation | <u>(4,964)</u> |
| June 30, 2003 Net Assets – Restated | <u>\$19,989,198</u> |

**NORTH CENTRAL STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE 3- NET ASSET RESTATEMENT/CHANGE IN ACCOUNTING PRINCIPLE
(Continued)**

The College implemented Governmental Accounting Standard Number 39, *Determining Whether Certain Organizations Are Component Units – an amendment of GASB Statement No. 14 (May 2002)*, for the fiscal year ended June 30, 2004. As a result of the implementation of GASB Statement No. 39, the College now includes the North Central State College Foundation as a discretely presented component unit in the College's financial statements.

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, 2004, the College had \$2,000 in un-deposited cash on hand which is reported as Cash on the Balance Sheet.

C. Deposits

At June 30, 2004, the reported amount of the College's deposits was \$987,746 and the bank balance was \$1,771,080. Of the bank balance, \$131,509 was covered by federal depository insurance. Of the remaining balance, \$1,639,571 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, 2004**

NOTE 4-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, 2004. STAR Ohio is an investment pool managed by the State Treasurer's Office that 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 that is the price the investment could be sold for on June 30, 2004. At June 30, 2004, the fair value of the College's STAR Ohio account was \$1,494,474. 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

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:

| | <u>Cash and Cash Equivalents/Deposits</u> | <u>Investments</u> |
|------------------------|---|---------------------------|
| GASB Statement No. 9 | \$2,484,220 | \$0 |
| Cash on Hand | (2,000) | 0 |
| Investments: STAR Ohio | <u>(1,494,474)</u> | <u>1,494,474</u> |
| GASB Statement No. 3 | <u><u>\$987,746</u></u> | <u><u>\$1,494,474</u></u> |

NOTE 5-RECEIVABLES

Receivables as of June 30, 2004 are summarized as follows:

| | Gross Receivable | Allowance for Doubtful Accounts | Net Receivable | Deferred Income |
|-------------------|---------------------------|--|---------------------------|---------------------------|
| Student Accounts | \$2,349,344 | \$81,378 | \$2,267,966 | \$2,264,655 |
| Intergovernmental | 439,272 | 0 | 439,272 | 0 |
| Grants | 145,000 | 0 | 145,000 | 145,000 |
| Other | 1,250,145 | 0 | 1,250,145 | 0 |
| Total Receivables | <u><u>\$4,183,761</u></u> | <u><u>\$81,378</u></u> | <u><u>\$4,102,383</u></u> | <u><u>\$2,409,655</u></u> |

**NORTH CENTRAL STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 6 CAPITAL ASSETS

Capital assets as of June 30, 2004 are summarized as follows:

| Cost | Restated* Balance 07/01/2003 | Additions | Deletions | Balance 06/30/2004 |
|--|------------------------------------|--------------------|----------------------|-----------------------|
| 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 | 519,515 | 3,947,864 | 0 | 4,467,379 |
| Infrastructure | 208,655 | 0 | 0 | 208,655 |
| Leasehold Improvements | 1,460,942 | 0 | 0 | 1,460,942 |
| Vehicles | 48,239 | 23,636 | (23,636) | 48,239 |
| Equipment | 3,685,910 | 130,734 | (15,241) | 3,801,403 |
| Construction in Progress | 2,530,261 | 1,417,603 | (3,947,864) | 0 |
| Total Cost of Capital Assets | 24,213,164 | 5,519,837 | (3,986,741) | 25,746,260 |
| <u>Accumulated Depreciation</u> | | | | |
| Land Improvements | (300,757) | (35,982) | 0 | (336,739) |
| Buildings | (3,109,493) | (401,242) | 0 | (3,510,735) |
| Building Improvements | (16,210) | (35,156) | 0 | (51,366) |
| Infrastructure | (37,566) | (8,346) | 0 | (45,912) |
| Vehicles | (36,204) | (6,276) | 0 | (42,480) |
| Leasehold Improvements | (566,669) | (69,924) | 0 | (636,593) |
| Equipment | (2,320,786) | (367,462) | 15,242 | (2,673,006) |
| Total Accumulated Depreciation | (6,387,685) | (924,388) | 15,242 | (7,296,831) |
| Capital Assets, Net | \$17,825,479 | \$4,595,449 | (\$3,971,499) | \$18,449,429 |

* See Note 3

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.

**NORTH CENTRAL STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 7-STATE SUPPORT, Continued

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.

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 (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

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.

**NORTH CENTRAL STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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, 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 for the fiscal year ended June 30, 2004, 2003, and 2002, were \$733,524, \$451,671, and \$400,513, 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. 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.

**NORTH CENTRAL STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 8-DEFINED BENEFIT PENSION PLANS (Continued)

Plan members are required to contribute ten 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 required contributions for pension obligations to SERS Ohio for the fiscal years ended June 30, 2004, 2003, and 2002 were \$537,957, \$206,157, and \$135,892, respectively; equal to the required contributions for each fiscal year.

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, 2003, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund.

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 to retirees and their benefits. 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.

**NORTH CENTRAL STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 9-POSTEMPLOYMENT BENEFITS (Continued)

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, 2004, the allocation rate is 4.91 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 \$24,500. 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. 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, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS Ohio had net assets available for payment of health care benefits of \$300.8 million. SERS Ohio has approximately 62,000 benefit recipients' statewide currently receiving health care benefits. The portion of the College's contributions that were used to fund postemployment benefits was \$188,672 for the fiscal year ended June 30, 2004.

NOTE 10-LONG-TERM LIABILITIES

Changes in long-term liabilities are as follows:

| | Balance 07/01/2003 | Additions | Reductions | Balance 06/30/2004 | Current Portion |
|------------------------|-----------------------|-----------------|-------------------|-----------------------|--------------------|
| Compensated Absences | \$506,820 | \$32,098 | \$0 | \$538,918 | \$25,773 |
| Bond Payable | 288,857 | 0 | (33,153) | 255,704 | 35,508 |
| Capital Lease Payable | 86,617 | 0 | (41,759) | 44,858 | 44,858 |
| Total Long-Term | \$882,294 | \$32,098 | (\$74,912) | \$839,480 | \$106,139 |

NOTE 11-BONDS PAYABLE

Bonds payable at June 30, 2004 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.

**NORTH CENTRAL STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 11-BONDS PAYABLE (Continued)

Maturity of outstanding debt, excluding interest payments of \$66,447, is as follows:

| <u>Fiscal Year Ending June 30,</u> | <u>Amount</u> |
|------------------------------------|------------------|
| 2005 | \$35,508 |
| 2006 | 37,993 |
| 2007 | 40,653 |
| 2008 | 43,499 |
| 2009 | 46,540 |
| 2010 | 51,511 |
| Total | <u>\$255,704</u> |

NOTE 12-LEASES

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, 2004 are as follows:

| | |
|-----------------------------------|-----------------|
| 2005 | <u>\$46,622</u> |
| Total | 46,622 |
| Less amount representing interest | <u>(1,764)</u> |
| Net capital lease obligations | <u>\$44,858</u> |

NOTE 13-OPERATING EXPENSES BY FUNCTION AND NATURAL CLASS

| | <u>Payroll and Benefits</u> | <u>Supplies and Other Services</u> | <u>Utilities and Maintenance</u> | <u>Student Aid and Scholarship</u> | <u>Depreciation Expense</u> | <u>Other Expense</u> | <u>Totals</u> |
|---------------------------------------|---------------------------------|--|--------------------------------------|--|---------------------------------|--------------------------|---------------------|
| Instruction | \$5,699,681 | \$432,634 | \$0 | \$0 | \$0 | \$99,206 | \$6,231,521 |
| Academic Support | 1,044,289 | 74,888 | 0 | 0 | 0 | 51,227 | 1,170,404 |
| Student Services | 1,287,817 | 60,422 | 0 | 0 | 0 | 55,373 | 1,403,612 |
| Institutional Support | 2,451,206 | 823,914 | 1,737,122 | 0 | 0 | 910,008 | 5,922,250 |
| Operation and Maintenance of Plant | 371,404 | 273,456 | 293,901 | 0 | 0 | 31,156 | 969,917 |
| Student Aid | 0 | 0 | 0 | 1,474,460 | 0 | 0 | 1,474,460 |
| Public Service | 1,097,388 | 391,759 | 0 | 0 | 0 | 159,220 | 1,648,367 |
| Depreciation | 0 | 0 | 0 | 0 | 924,388 | 0 | 924,388 |
| Totals | <u>\$11,951,785</u> | <u>\$2,057,073</u> | <u>\$2,031,023</u> | <u>\$1,474,460</u> | <u>\$924,388</u> | <u>\$1,306,190</u> | <u>\$19,744,919</u> |

NOTE 14-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.

**NORTH CENTRAL STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 14-CONTINGENCIES (Continued)

B. Litigation

The College is currently not a party to any legal proceedings.

NOTE 15-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 16-NEW ACCOUNTING PRONOUNCEMENTS

In March 2003, GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*, which amends GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, and addresses additional risks to which governments are exposed. Under GASB No. 40, state and local governments are required to disclose information covering four principal areas:

-investment credit risk disclosures, including credit quality information issued by rating agencies;

-interest rate disclosures that include investment maturity information, such as weighted average maturities or specific identification of the securities;

-interest rate sensitivity for investments that are highly sensitive to changes in interest rates (example, inverse floaters, enhanced variable-rate investments, and certain asset-backed securities); and

-foreign exchange exposures that would indicate the foreign investment's domination.

The GASB No. 40 provisions are effective for financial statements for periods beginning after June 15, 2004. College management has not yet determined the impact that implementation of GASB No. 40 will have on the university's financial statements.

**NORTH CENTRAL STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 17- 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:

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

**NORTH CENTRAL STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 17- COMPONENT UNIT DISCLOSURES- NORTH CENTRAL STATE COLLEGE FOUNDATION (Continued)

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.

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 the college personnel in the amount of \$3,230 have been recognized in the statement of activities as supporting revenue and as "In Kind" supporting expenses as required by SFAS 116.

**NORTH CENTRAL STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 17- COMPONENT UNIT DISCLOSURES- NORTH CENTRAL STATE COLLEGE FOUNDATION (Continued)

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.

Fixed Assets:

Fixed assets acquired by the Foundation consist of office equipment. All expenditures for fixed 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.

Deferred Revenue:

Deferred revenue results from various fundraising activities. It represents amounts received from sponsors and vendors and for 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.

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.

**NORTH CENTRAL STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 17- COMPONENT UNIT DISCLOSURES- NORTH CENTRAL STATE COLLEGE FOUNDATION (Continued)

| At June 30, 2004, investments consisted of the following: | Carrying Value | Market Value |
|---|--------------------|--------------------|
| Money Market Investments – US Government Obligations | \$21,998 | \$21,998 |
| Mutual Funds – Fixed Income Corporations | 539,954 | 539,954 |
| Mutual Funds – Equity Securities | 994,235 | 994,235 |
| Total | <u>\$1,556,187</u> | <u>\$1,556,187</u> |

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, 2004 was 3.25%. The amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until conditions are met.

Contributions receivable consisted of the following at June 30, 2004:

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

| | |
|---|------------------|
| Unrestricted | \$825 |
| Temporarily restricted | 221,250 |
| Permanently restricted | 11,000 |
| Gross unconditional promises to give | <u>233,075</u> |
| Less: Unamortized discount | (8,664) |
| Less: Allowance for uncollectible contributions | <u>(23,307)</u> |
| Net unconditional promises to give | <u>\$201,104</u> |
| Amounts due: | |
| Less than one year | \$148,881 |
| One to five years | 52,223 |
| Net unconditional promises to give | <u>\$201,104</u> |

TEMPORARILY RESTRICTED NET ASSETS

Temporarily and permanently restricted 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.

**NORTH CENTRAL STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 17- COMPONENT UNIT DISCLOSURES- NORTH CENTRAL STATE COLLEGE FOUNDATION (Continued)

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

| | |
|------------------------------|------------------|
| Scholarships for Students: | |
| Cobey Scholarship | \$500 |
| Emerson Scholarship | 2,400 |
| Brown Scholarship | 150 |
| Faculty Scholarship | 1,161 |
| G-R Civic Scholarship | 500 |
| Garber Scholarship | 600 |
| Gorman-Rupp Scholarship | 1,400 |
| Gubkin Scholarship | 150 |
| Haring Scholarship | 400 |
| KMU Scholarship | 150 |
| Mansfield University | 5,225 |
| Nursing Scholarship | 5,500 |
| Orange and Blue Scholarship | 1,500 |
| Preston Endowment | 725 |
| Rabel Machine Scholarship | 1,500 |
| Welsh Scholarship | 1,275 |
| Kroger Scholarship | 500 |
| Miller-Carter Scholarship | 2,365 |
| Gimbel Scholarship | 13,998 |
| President Emeritus | |
| Scholarship | 279 |
| Tech Prep | 535 |
| Scholarships (General) | 21,900 |
| YES Scholarship | 1,000 |
| Equipment | 5,181 |
| Paralegal Library | 322 |
| Professional Development | 55 |
| Computer Center | 1,492 |
| Other (Receivable Pledges) | 190,899 |
| Richland County Foundation | 250,000 |
| Total Temporarily Restricted | <u>\$511,662</u> |

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

**NORTH CENTRAL STATE COLLEGE
 NOTES TO FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

**NOTE 17- COMPONENT UNIT DISCLOSURES- NORTH CENTRAL STATE
 COLLEGE FOUNDATION (Continued)**

| | |
|--|-------------------------|
| Purpose Restriction Accomplished: | |
| Scholarships for Students: | |
| Ambassador Scholarship | \$4,050 |
| Cobey Scholarship | 500 |
| Emerson Scholarship | 936 |
| Faculty Scholarship | 275 |
| G-R Civic Scholarship | 475 |
| Garber Scholarship | 400 |
| Gorman-Rupp Scholarship | 1,666 |
| Gubkin Scholarship | 500 |
| Haring Scholarship | 350 |
| Mansfield University | 5,400 |
| Miller-Carter University | 1,834 |
| Nursing Scholarship | 6,080 |
| Orange and Blue Scholarship | 1,200 |
| Preston Endowment | 725 |
| Rabel Machine Scholarship | 1,768 |
| Welsh Scholarship | 1,350 |
| Kroger Scholarship | 500 |
| Gimbel Scholarship | 7,834 |
| Tech Prep | 4,000 |
| Scholarships (General) | 10,280 |
| Therm-O-Disc Scholarship | 1,864 |
| Total Scholarships for Students | <u>51,987</u> |
| Instructional Facilities and Equipment: | |
| Kehoe Center | 154,350 |
| Computer Center | 105,567 |
| Total Instructional Facilities and Equipment | <u>259,917</u> |
| Total Released from Restrictions | <u><u>\$311,904</u></u> |

**NORTH CENTRAL STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 17- COMPONENT UNIT DISCLOSURES- NORTH CENTRAL STATE COLLEGE FOUNDATION (Continued)

PERMANENTLY RESTRICTED NET ASSETS

Permanently Restricted:

| Endowment Scholarships for Students: | |
|---|------------------|
| Brown Scholarship | \$5,658 |
| Cobey Scholarship | 20,375 |
| Emerson Scholarship | 97,807 |
| Faculty Scholarship | 10,395 |
| G-R Civic Scholarship | 20,681 |
| Garber Scholarship | 28,745 |
| Gimble Health Chair | 82,077 |
| Gorman-Rupp Scholarship | 54,762 |
| Gubkin Scholarship | 6,583 |
| Haring Scholarship | 16,271 |
| KMU Scholarship | 5,851 |
| NCOBDC Scholarship | 2,098 |
| Neer Scholarship | 2,214 |
| Nursing Scholarship | 224,420 |
| Respiratory Care Endowment | 354 |
| Orange and Blue Scholarship | 61,692 |
| Preston Endowment | 30,717 |
| Welsh Scholarship | 49,571 |
| Kroger Scholarship | 21,383 |
| President Emeritus Endowment | 11,583 |
| Entrepreneur Endowment (Y.E.S.) | 7,480 |
| Restricted Contributions | 7,491 |
| Total Permanently Restricted | <u>\$768,208</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.

**NORTH CENTRAL STATE COLLEGE
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

NOTE 17- COMPONENT UNIT DISCLOSURES- NORTH CENTRAL STATE COLLEGE FOUNDATION (Continued)

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, 2004.

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 Richland County Foundation. The amount recognized in the Statement of Financial Position of the Richland County Foundation at June 30, 2004 totaled \$274,216.

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, 2004

| Federal Grantor/ Pass-Through Grantor/ Program Title | Pass-Through Entity Number | Federal CFDA Number | Disbursements |
|--|---|------------------------------------|---------------------------|
| United States Department of Education | | | |
| <i>Federal Student Financial Assistance Cluster:</i> | | | |
| Federal Supplemental Educational Opportunity Grant Program | N/A | 84.007 | \$82,340 |
| Federal Family Education Loan Program | N/A | 84.032 | 2,263,513 |
| Federal Work Study Program | N/A | 84.033 | 145,454 |
| Federal Pell Grant Program | N/A | 84.063 | 3,141,748 |
| <i>Total Student Financial Assistance Programs Cluster</i> | | | <u>5,633,055</u> |
| Child Care Grant | N/A | 84.335A | 9,805 |
| <i>Passed Through the Ohio Department of Education:</i> | | | |
| Vocational Education_Basic Grants to States | 20A0/20C2/20C3 | 84.048 | 118,611 |
| Special Education_Preschool Grants | PGA1 | 84.173 | 3,250 |
| Tech-Prep Education | 3ETC | 84.243 | 245,766 |
| <i>Total Passed Through the Ohio Department of Education:</i> | | | <u>367,627</u> |
| Total U.S. Department of Education | | | <u>6,010,487</u> |
| United States Department of Labor | | | |
| <i>Passed Through the Ohio Bureau of Employment Services:</i> | | | |
| Trade Adjustment Assistance_Workers | 70502-038 | 17.245 | 27,240 |
| <i>Passed Through the Ohio Department of Education:</i> | | | |
| WIA Adult Program | WFHS | 17.258 | 22,455 |
| Total U.S. Department of Labor | | | <u>49,695</u> |
| United States Department of Health and Human Services | | | |
| Head Start | N/A | 93.600 | 683,197 |
| <i>Passed Through the Richland Co. Dept. of Job & Family Services:</i> | | | |
| Temporary Assistance for Needy Families | 621 | 93.558 | 147,707 |
| Total U.S. Department of Health and Human Services | | | <u>830,904</u> |
| United States Department of Agriculture | | | |
| <i>Passed Through the Ohio Department of Education:</i> | | | |
| Child and Adult Care Food Program | CCCN/CCMN | 10.558 | 31,349 |
| Total U.S. Department of Agriculture | | | <u>31,349</u> |
| Total Federal Financial Assistance | | | <u><u>\$6,922,435</u></u> |

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

June 30, 2004

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, 2004, 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.

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Ohio Society of Certified Public Accountants

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

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

We have audited the financial statements of North Central State College (the College) and its discretely presented component unit as of and for the year ended June 30, 2004, and have issued our report thereon dated December 20, 2004, in which we indicated the College adopted GASB Statement No. 39. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance

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

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

Balestra, Harr & Scherer, CPAs, Inc.

Balestra, Harr & Scherer, CPAs, Inc.
December 20, 2004

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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, OH 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, 2004. North Central State 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 of 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, 2004.

Internal Control Over Compliance

The management of the College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit we considered the College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on 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, members of the Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Balestra, Harr & Scherer, CPAs, Inc.

Balestra, Harr & Scherer, CPAs, Inc.

December 20, 2004

NORTH CENTRAL STATE COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 SECTION .505
FOR THE YEAR ENDED JUNE 30, 2004

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|--------------|--|---|
| (d)(1)(i) | Type of Financial Statement Opinion | Unqualified |
| (d)(1)(ii) | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | No |
| (d)(1)(ii) | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | No |
| (d)(1)(iii) | Was there any reported noncompliance at the financial statement level (GAGAS)? | No |
| (d)(1)(iv) | Were there any material internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(iv) | Were there any other reportable internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(v) | Type of Major Program's Compliance Opinion | Unqualified |
| (d)(1)(vi) | Are there any reportable findings under section .510? | No |
| (d)(1)(vii) | Major Programs (list): | Student Financial Aid Cluster: Supplemental Education Opportunity Grant, CFDA # 84.007; Federal Work- Study Program CFDA# 84.033; PELL Grant Program CFDA# 84.063; Federal Family Education Loan Program 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 YEAR ENDED JUNE 30, 2004

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

| | |
|----------------|------|
| Finding Number | None |
|----------------|------|

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

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



**Auditor of State
Betty Montgomery**

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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 10, 2005**