

North Central State College

Richland County

Single Audit

July 1, 2004 through June 30, 2005

Fiscal Year Audited Under GAGAS: 2005

**BALESTRA, HARR & SCHERER, CPAs, Inc.**

528 South West Street, P.O. Box 687  
Piketon, Ohio 45661

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**Auditor of State  
Betty Montgomery**

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

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, 2004 through June 30, 2005. 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

December 28, 2005

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**North Central State College**  
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Member American Institute of Certified Public Accountants

Member Ohio Society of Certified Public Accountants

## Independent Auditors' Report

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

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of North Central State College (the College), as of and for the year ended June 30, 2005, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the College, as of June 30, 2005, 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 14, 2005, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

As described in Note 3 to the basic financial statements, the College implemented Governmental Accounting Standards Board Statement Number 40, *Deposit and Investment Risk Disclosures*.

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

Balestra, Harr & Scherer, CPAs, Inc.  
December 14, 2005

**North Central State College**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

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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, 2005. 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 \$284,151. 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.

**The Statement of Net Assets**

Condensed Financial Information		
Statement of Net Assets		
	2005	2004
Assets		
Current Assets	\$6,297,888	\$5,148,973
Non-current Assets	19,260,205	19,887,059
Total Assets	25,558,093	25,036,032
Liabilities		
Current Liabilities	3,297,226	3,095,493
Non-current Liabilities	769,518	733,341
Total Liabilities	4,066,744	3,828,834
Net Assets		
Invested in Capital Assets, Net of Related Debt	17,701,973	18,148,867
Restricted	244,003	175,084
Unrestricted	3,545,373	2,883,247
Total Net Assets	\$21,491,349	\$21,207,198

**Assets**

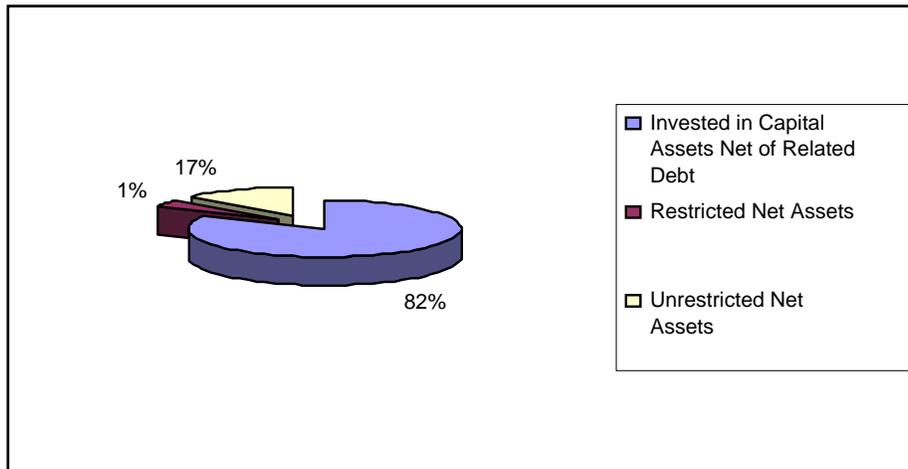
As of June 30, 2005, the College's total assets amounted to \$25,558,093. Investment in capital assets, net of depreciation totaled \$17,922,133 represented the College's largest asset, totaling 70 percent of total assets. Cash and cash equivalents totaling \$3,659,397 or 14 percent of total assets, were the College's second largest asset. Cash and cash equivalents increased \$1,175,177 from the prior year. Student accounts receivable of \$2,121,975 or 8 percent, represented the next largest asset.

**North Central State College**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

**Liabilities**

At June 30, 2005, the College's liabilities totaled \$4,066,744, comprised of current liabilities of \$3,297,226 and non-current liabilities totaling \$769,518. Deferred revenue represented \$2,164,496 or 53 percent of total liabilities. Total liabilities increased during the year ended June 30, 2005 by \$237,910.

**Net Assets**



**Net Assets**

Net assets at June 30, 2005 totaled \$21,491,349 or 84 percent of total assets. Net assets invested in capital assets totaled \$17,701,973 or 82 percent of total net assets. Total net assets increased by \$284,151 during the year ended June 30, 2005 even with the recognition of depreciation expense totaling \$1,036,930.

Restricted net assets totaled \$244,003 or 1 percent of total net assets. Of the total restricted net assets, \$231,908 restricted for capital projects and \$12,095 restricted for grants. Unrestricted net assets totaled \$3,545,373, or 17 percent.

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

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

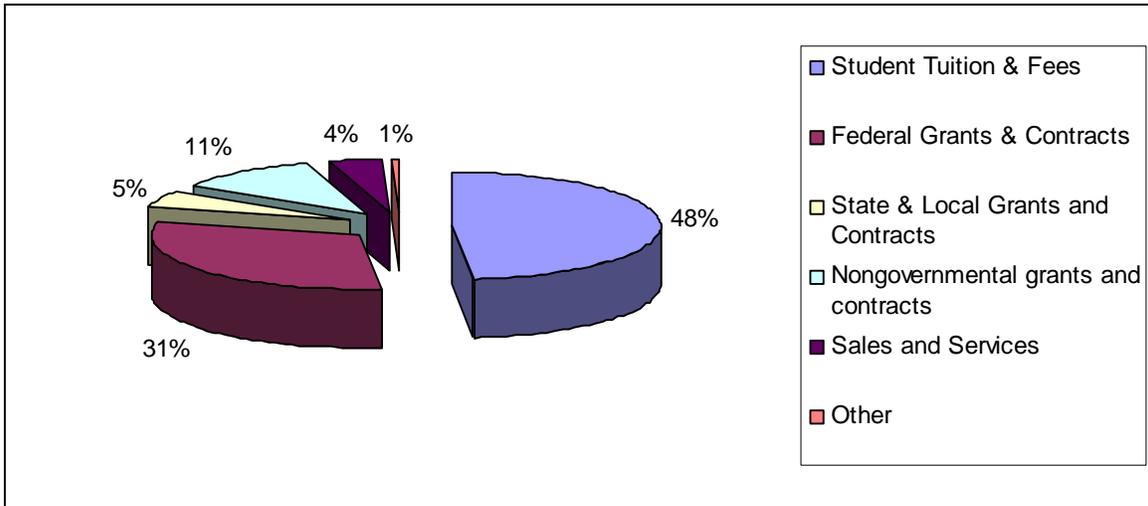
	2005	2004
Total Operating Revenue	\$12,946,290	\$12,414,658
Total Operating Expenses	20,475,080	19,744,919
Operating Loss	(7,528,790)	(7,330,261)
Non-Operating Revenues	7,812,941	7,367,386
Income Before Other Revenues, Gains or Losses	284,151	37,125
Total Other Revenue, Expenses, Gains or Losses	0	1,180,875
Increase in Net Assets	284,151	1,218,000
Net Assets, Beginning of Year	21,207,198	19,989,198
Net Assets, End of Year	\$21,491,349	\$21,207,198

**North Central State College**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

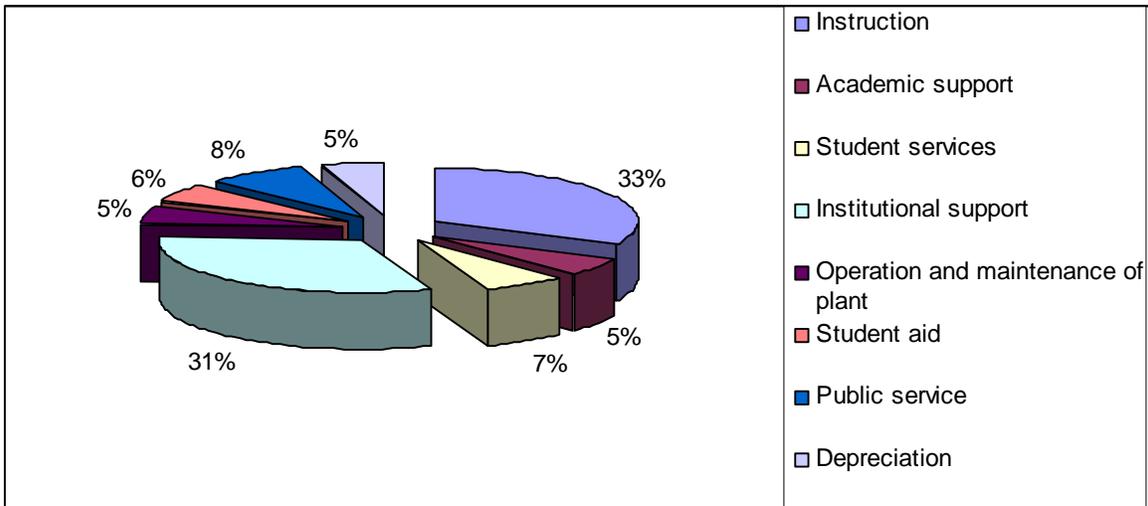
**Operating Revenues**

Total operating revenues were \$12,946,290 for the year ended June 30, 2005. The most significant sources of operating revenue for the College are net student tuition and fees, 48 percent, federal grants and contracts, 31 percent, and nongovernmental grants and contracts, 11 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 \$604,310 due to an average tuition and fee increase of 11 percent at the beginning of the fiscal year.



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, 2005, amounted to \$7,801,787. This represents an increase of \$648,625 over the College's appropriation for the prior year.



Operating expenses totaled \$20,475,080. The majority of the College's operating funds are expended directly for the primary mission of the College instruction, 33 percent, academic support, 5 percent, and institutional support, 31 percent. For the year ended June 30, 2005, student aid totaled \$1,220,705 or 6 percent.

**North Central State College**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

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**The Statement of Cash Flows**

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

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

Major sources of cash inflows included in operating activities are grants and contracts \$6,060,490 and student tuition and fees \$6,148,342. The largest cash outflows for operating activities were to employees, for wages and benefits, \$12,851,625, for utilities and maintenance, \$1,952,707, and to suppliers, \$1,244,131.

The largest cash receipt in the non-capital financing activities group is the non-operating appropriation from the State of Ohio, \$7,801,787.

**Capital Assets**

Capital assets, net of accumulated depreciation, totaled \$17,922,133 at June 30, 2005, a net decrease of \$527,296 from the prior year-end. Additions to capital assets during the year totaled \$531,257 and disposals totaled \$47,973. Depreciation expense for the year ended June 30, 2005 amounted to \$1,036,930. More detailed information about the College's capital assets is presented in note 6 to the financial statements.

**Debt**

As of June 30, 2005, the College had debt outstanding of \$220,160 for the Child Development Center facility. This represents a decrease of \$35,544 from the previous year total of \$255,704 due to principal payments. Other debt obligation reductions would include the final payment of Capital Lease payments of \$44,858. The College utilizes private donations and bookstore commissions to fulfill debt obligations. More detailed information about the College's long-term liabilities is presented in note 10 to the financial statements.

**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. 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.

**Factors Impacting Future Periods**

Economic pressures affecting the State of Ohio have resulted in a significant shortfall in revenue for the fiscal years ended 2004 and 2005. Due to declining economic growth and increased demand for state resources, the College is expecting limited increases in state appropriations in fiscal year 2006.

The College has approved tuition and fee increases averaging 9.9 percent starting Summer Quarter 2004, 3.9 percent 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 2006.

**North Central State College**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2005*  
*Unaudited*

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**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*  
*As of June 30, 2005*

ASSETS	Primary	Component
Current Assets	Institution	Unit
Cash & cash equivalents	\$3,616,915	\$178,217
Investments	0	1,640,013
Student accounts receivable, net	2,121,975	0
Intergovernmental receivables	554,394	0
Prepaid expenses and deferred charges	4,604	0
Contributions Receivable	0	57,540
Deferred Expense	0	38,909
Emergency Loan Receivable	0	1,856
Interest in Assets held by Richland Co. Foundation	0	250,000
Total current assets	6,297,888	2,166,535
 Noncurrent Assets		
Restricted cash & cash equivalents	42,482	0
Intergovernmental receivables	45,000	0
Contributions receivable	0	24,625
Other receivables	1,250,590	0
Capital assets, net	17,922,133	0
Total noncurrent assets	19,260,205	24,625
Total assets	\$25,558,093	\$2,191,160
 LIABILITIES		
 Current Liabilities		
Accounts Payable and Accrued Liabilities	\$512,663	\$365,337
Deferred Income	2,164,496	16,390
Contracts Payable	120,558	0
Accrued Wages	461,515	0
Long-term liabilities - current portion	37,994	0
Total current liabilities	3,297,226	381,727
 Noncurrent Liabilities		
Long-term liabilities	769,518	0
Total noncurrent liabilities	769,518	0
Total liabilities	4,066,744	381,727
 NET ASSETS		
Invested in capital assets, net of related debt	17,701,973	0
Restricted for		
Nonexpendable		
Scholarships	0	855,612
Expendable		
Student Grants and Scholarships	0	353,809
Capital Projects	231,908	0
Other	12,095	0
Unrestricted	3,545,373	600,012
Total net assets	21,491,349	1,809,433
Total liabilities and net assets	\$25,558,093	\$2,191,160

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, 2005

REVENUES	Primary Institution	Component Unit
Operating Revenues:		
Student tuition and fees (net of scholarship allowances of \$1,922,167)	\$6,247,510	\$0
Federal grants and contracts	3,957,426	0
State and local grants and contracts	674,053	0
Nongovernmental grants and contracts	1,444,133	0
Sales and services	534,416	0
Contributions	0	203,336
Fundraising	0	172,078
Other operating revenues	88,752	26,010
Total operating revenues	12,946,290	401,424
 EXPENSES		
Operating Expenses:		
Educational and general:		
Instruction	6,679,558	0
Academic support	1,063,148	47,480
Student services	1,348,616	0
Institutional support	6,413,661	0
Operation and maintenance of plant	1,102,587	0
Student aid	1,220,705	46,238
Public service	1,609,875	0
Depreciation	1,036,930	351
Other expenditures	0	160,789
Total operating expenses	20,475,080	254,858
Operating loss	(7,528,790)	146,566
 NONOPERATING REVENUES (EXPENSES)		
State appropriations	7,801,787	0
Gifts	0	0
Investment income, net	30,779	93,789
Interest on capital asset-related debt	(19,625)	0
Net Nonoperating Revenues	7,812,941	93,789
 Increase in net assets	284,151	240,355
 NET ASSETS		
Net Assets, Beginning of Year (Restated - See Note 17)	21,207,198	1,569,078
Net Assets, End of Year	\$21,491,349	\$1,809,433

See accompanying notes to the basic financial statements.

**North Central State College**  
*Statement of Cash Flows*  
For the Fiscal Year Ended June 30, 2005

	<u>Primary Institution</u>
<b><u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u></b>	
<i>Cash Flows from Operating Activities:</i>	
Tuition and fees	\$6,148,342
Grants and contracts	6,060,490
Payments to suppliers	(1,244,131)
Payments to employees and for benefits	(12,851,625)
Payments for utilities and maintenance	(1,952,707)
Payments for student aid	(1,220,705)
Sales and service of educational activities	534,416
Other receipts (payments)	<u>(1,521,810)</u>
Net cash used by operating activities	<u>(6,047,730)</u>
<i>Cash Flows from Non-Capital and Related Financing Activities:</i>	
FFEL Loans received	2,221,339
FFEL Loans disbursed	(2,221,339)
State appropriations	<u>7,801,787</u>
Net cash provided by non-capital and related financing activities	<u>7,801,787</u>
<i>Cash Flows from Capital and Related Financing Activities:</i>	
Purchases of capital assets	(509,632)
Interest paid on capital debt and leases	(19,625)
Principal paid on capital debt and leases	<u>(80,402)</u>
Net cash used by capital and related financing activities	<u>(609,659)</u>
<i>Cash Flows from Investing Activities:</i>	
Interest on investments	<u>30,779</u>
Net cash provided by investing activities	<u>30,779</u>
Net increase in cash and cash equivalents	1,175,177
Cash and Cash Equivalents, beginning of year	<u>2,484,220</u>
Cash and Cash Equivalents, end of year	<u><u>\$3,659,397</u></u>
<b><u>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u></b>	
Operating loss	(\$7,528,790)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Depreciation	1,036,930
Change in Assets and Liabilities:	
Receivables, net	130,424
Prepaid Expenses	(4,604)
Payables	455,430
Accrued Wages	59,607
Deferred revenue	(245,159)
Compensated absences	<u>48,432</u>
Net cash used by operating activities	<u><u>(\$6,047,730)</u></u>

See accompanying notes to the basic financial statements.

**NOTE 1-DESCRIPTION OF THE ENTITY**

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

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

**NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the College have been prepared in conformity with generally accepted accounting principles. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

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

- A. *Basis of Presentation* – The College applies GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*; GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public 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.
- B. *Basis of Accounting* - The financial statements of the College have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The College reports as a “business type activity” as defined by GASB Statement No. 34. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. The full scope of the College’s activities is considered to be a single business type activity and accordingly, is reported within a single column in the basic financial statements.
- C. *Budgetary Process* - The budget is an annual plan for the financial operations of the College that establishes a basis of control and evaluation of activities financed through the current funds of the College. Formal adoption of the budget into the accounting records is not legally mandated and, thus, the College does not integrate the budget into its accounts.

**North Central State College**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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**NOTE 2 – SUMMARY OF ACCOUNTING POLICIES (Continued)**

D. Cash and Investments - For purposes of presentation on the Statement of Net Assets and the Statement of Cash Flows, investments with maturities of three months or less at the time they are purchased are considered to be cash equivalents. During fiscal year 2005, investments were limited to STAR Ohio. These investments are reported as cash equivalents on the Statement of Net Assets. Investments are reported at fair value which is based on quoted market prices.

E. Accounts Receivable - Receivables at June 30, 2005, consist primarily of student tuition and fees, pledges for the Kehoe Center, and grants due from other governments. Student tuition and fees are reported at net using the direct write-off method.

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

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

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

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

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

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

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

**NOTE 2 – SUMMARY OF ACCOUNTING POLICIES (Continued)**

*I. Compensated Absences (Continued)*

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

*J. Operating and Non-Operating Revenues and Expenses*

The College presents its revenues and expenses as operating or non-operating based on recognition definitions per GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trusts Funds and Governmental Entities That Use Proprietary Fund Accounting*. Operating activities are those activities that are necessary and essential to the mission of the College. Operating revenues include all charges to customers, grants received for student financial assistance, and interest earned on loans. Grants received for student financial assistance are considered operating revenues because they provide resources for student charges and such programs are necessary and essential to the mission of the College. Revenues from nonexchange transactions and state appropriations that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are investing, capital, or noncapital financial activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor nonoperating activities and are presented after nonoperating activities on the accompanying Statement of Revenues, Expenses and Changes in Net Assets. The college had no revenues for capital financing activities for fiscal year ended June 30, 2005.

*K. Scholarship Allowances*

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

The scholarship allowance represents the difference between actual charges for goods and services provided by the College and the amount that is paid by the student or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as operating revenues in the Statement of Revenue, Expense and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship allowance discount.

*L. Net Assets*

The College's net assets are classified as follows:

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

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

**NOTE 2 – SUMMARY OF ACCOUNTING POLICIES (Continued)**

*L. Net Assets (Continued)*

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

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

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

**NOTE 3- CHANGE IN ACCOUNTING PRINCIPLE**

The College has implemented Governmental Accounting Standards Board 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 the additional disclosures for risks to which governments are exposed. Implementation of this GASB statement had no impact on the College's financial position or results of operations.

**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, 2005, the College had \$2,000 in undeposited cash on hand which is reported as part of cash and cash equivalents on the Statement of Net Assets.

**North Central State College**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2005

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**NOTE 4-CASH AND CASH EQUIVALENTS (Continued)**

*C. Deposits* - At June 30, 2005, the reported amount of the College's deposits was \$2,132,146 and the bank balance was \$2,531,987. The difference between the carrying amount of the College's deposits and the bank balance represents normal reconciling items.

Of the bank balance, \$100,000 was protected by Federal Deposit Insurance Corporation (FDIC). Of the remaining balance, \$2,431,987 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. 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.

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

As of June 30, 2005, the primary government had the following investments (based on quoted market prices) and maturities (in years):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1</u>	<u>Percent of</u> <u>Portfolio</u>
STAR Ohio	<u>\$1,525,251</u>	<u>\$1,525,251</u>	<u>100%</u>

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

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

*Concentration of credit risk:* Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The College does not have an investment policy that provides for diversification to avoid concentration in securities of one type or securities of one financial institution. 100% has been invested in STAR Ohio.

*Custodial credit risk:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. For deposits, custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The College's policy required that public depositories must give security for all public funds on deposits by either specifically collateralizing individual accounts in lieu of amounts insured by the FDIC or by pledging a pool of government securities. The College is not exposed to custodial credit risk for its investments. As of June 30, 2005, \$2,431,987 of the College's bank balances was exposed to custodial credit risk as follows:

	<u>June 30, 2005</u>
Uninsured and collateral held by the pledging bank's trust department in a collateral pool not in the College's name	<u>\$2,431,987</u>
	<u>\$2,431,987</u>

**North Central State College**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2005

**NOTE 5-RECEIVABLES**

Receivables as of June 30, 2005 are summarized as follows:

	Gross Receivable	Allowance for Doubtful Accounts	Net Receivable	Deferred Income
Student Accounts	\$2,215,725	\$93,752	\$2,121,975	\$2,119,496
Intergovernmental	554,394	0	554,394	0
Grants	45,000	0	45,000	45,000
Other	1,250,590	0	1,250,590	0
Total Receivables	<u>\$4,183,761</u>	<u>\$81,378</u>	<u>\$4,102,383</u>	<u>\$2,164,496</u>

**NOTE 6 CAPITAL ASSETS**

Capital assets as of June 30, 2005 are summarized as follows:

Cost	Balance 07/01/2004	Additions	Deletions	Balance 06/30/2005
Land	\$225,629	\$0	\$0	\$225,629
Land Improvements	724,984	0	0	724,984
Buildings	14,809,029	0	0	14,809,029
Building Improvements	4,467,379	0	0	4,467,379
Infrastructure	208,655	0	0	208,655
Leasehold Improvements	1,460,942	0	0	1,460,942
Vehicles	*71,875	21,154	(23,636)	45,757
Equipment	*3,777,767	140,306	(24,337)	3,917,372
Construction in Progress	0	369,797	0	369,797
Total Cost of Capital Assets	<u>25,746,260</u>	<u>531,257</u>	<u>(47,973)</u>	<u>26,229,544</u>
<u>Accumulated Depreciation</u>				
Land Improvements	(336,739)	(35,981)	0	(372,720)
Buildings	(3,510,735)	(401,242)	0	(3,911,977)
Building Improvements	(51,366)	(178,615)	0	(229,981)
Infrastructure	(45,912)	(8,346)	0	(54,258)
Vehicles	(42,480)	(7,846)	2,482	(47,844)
Leasehold Improvements	(636,593)	(69,924)	0	(706,517)
Equipment	(2,673,006)	(334,976)	23,868	(2,984,114)
Total Accumulated Depreciation	<u>(7,296,831)</u>	<u>(1,036,930)</u>	<u>26,350</u>	<u>(8,307,411)</u>
Capital Assets, Net	<u>\$18,449,429</u>	<u>(\$505,673)</u>	<u>(\$21,623)</u>	<u>\$17,922,133</u>

\*Vehicles and equipment were restated due to incorrect asset classification in the prior year. The restatement had no impact on the College's net assets as previously reported.

**NOTE 7-STATE SUPPORT**

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

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

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

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

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

**NOTE 8-DEFINED BENEFIT PENSION PLANS**

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

*A. State Teachers Retirement System*

The College participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. 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.

**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, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The College was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. The College's required contributions for pension obligations for the fiscal years ended June 30, 2005, 2004, and 2003, were \$717,437, 733,524, and \$451,671, respectively; equal to the required contribution for each fiscal year.

*B. School Employees Retirement System*

The College contributes to the School Employees Retirement System of Ohio (SERS Ohio), a cost-sharing, multiple employer defined benefit pension plan. SERS Ohio provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. The School Employees Retirement System issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members are required to contribute 10 percent of their annual covered salary and the College is required to contribute at an actuarially determined rate. The current College rate is 14 percent of annual covered payroll. A portion of the College's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 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, 2005, 2004, and 2003 were \$586,950, \$537,957 and \$206,157 respectively; equal to the required contributions for each fiscal year.

*C. Alternative Retirement Plan*

Ohio Amended Substitute House Bill 586 (Ohio Revised Code 3305.2) became effective March 31, 1998, authorizing an alternative retirement system for academic and administrative college employees of public institutions of higher education, who are currently covered by the School Employees Retirement System or State Teachers Retirement System. The College Board of Trustees adopted such plan effective March 24, 1999. This plan is a defined contribution plan under IRS section 401(a).

**NOTE 8-DEFINED BENEFIT PENSION PLANS (Continued)**

*C. Alternative Retirement Plan (Continued)*

Eligible employees (those who are full-time and salaried) have 120 days from their date of hire to make an irrevocable election to participate in the alternate retirement plan. Under this plan, employees who would have otherwise been required to be in SERS or STRS and who elect to participate in the alternate retirement program must contribute the employee's share of retirement contributions (10% SERS, 10% STRS) to one of eight private providers approved by the State Department of Insurance. The legislation mandates that the employer must contribute 3.5% to the State Teachers Retirement System to which the employee would have otherwise belonged. The College also contributes what would be been the employer's share of the appropriate retirement system, less the aforementioned 3.5%, to the private provider selected by the employee. The College plan provides these employees with immediate plan vesting. The total employer contributions to the alternative retirement plan for the years ended June 30, 2005, 2004, and 2003 were \$68,365, \$64,683, and \$55,426, respectively.

**NOTE 9-POSTEMPLOYMENT BENEFITS**

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

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

Pursuant to the Ohio Revised Code, the State Teachers Retirement Board has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The Retirement Board allocates employer contributions to the Health Care Reserve Fund from which health care benefits are paid. For the fiscal year ended June 30, 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund.

The balance in the Health Care Reserve Fund was \$3.1 billion at June 30, 2004 (the latest information available). For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000, and STRS Ohio had 111,853 eligible benefit recipients statewide.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. At June 30, 2004, the healthcare 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 2004, the minimum pay has been established as \$25,400. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund.

**North Central State College**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2005

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**NOTE 9-POSTEMPLOYMENT BENEFITS (Continued)**

Health care benefits are financed on a pay-as you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 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 July 1, 2004	Additions	Reductions	Balance June 30, 2005	Current Portion
Compensated Absences	\$538,918	\$587,353	(\$538,919)	\$587,352	\$0
Bond Payable	255,704	0	(35,544)	220,160	37,994
Capital Lease Payable	44,858	0	(44,858)	0	0
<b>Total Long-Term</b>	<b>\$839,480</b>	<b>\$587,353</b>	<b>(\$619,321)</b>	<b>\$807,512</b>	<b>\$37,994</b>

**NOTE 11-BONDS PAYABLE**

Bonds payable at June 30, 2005 consisted of the following:

**Bonds Payable**

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

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

Maturity of outstanding debt, excluding interest payments of \$48,533, is as follows:

Fiscal Year Ending June 30,	Amount
2006	\$37,993
2007	40,653
2008	43,499
2009	46,540
2010	51,475
<b>Total</b>	<b>\$220,160</b>

**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 and was fully paid as of June 30, 2005.

**North Central State College**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2005

**NOTE 13-OPERATING EXPENSES BY FUNCTION AND NATURAL CLASS**

	Payroll and Benefits	Supplies and Other Services	Utilities and Maintenance	Student Aid and Scholarship	Depreciation Expense	Other Expenses	Totals
Instruction	\$6,190,371	\$385,339	\$0	\$0	\$0	\$103,848	\$6,679,558
Academic support	959,031	30,481	0	0	0	73,636	1,063,148
Student services	1,211,357	64,488	0	0	0	72,771	1,348,616
Institutional support	2,746,334	872,984	1,619,020	0	0	1,175,323	6,413,661
Operation and maintenance of plant	597,939	164,033	333,687	0	0	6,928	1,102,587
Student aid	0	0	0	1,220,705	0	0	1,220,705
Public service	1,254,632	177,632	0	0	0	177,611	1,609,875
Depreciation	0	0	0	0	1,036,930	0	1,036,930
Total operating expenses	\$12,959,664	\$1,694,957	\$1,952,707	\$1,220,705	\$1,036,930	\$1,610,117	\$20,475,080

**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.

B. Litigation

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

**NOTE 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- CONTRACT COMMITMENTS**

As of June 30, 2005, the College had the following contract commitments outstanding for the construction of the Kehoe Center Tool and Die Addition:

Contract Name	Contract Amount	Amount Paid Through June 30, 2005	Remaining Contract Commitment
Spring Electrical	\$61,365	\$1,497	\$59,868
Standard Plumbing and Heating	60,280	6,033	54,247
Studer-Obringer, Inc.	337,180	192,918	144,262
Totals	\$458,825	\$200,448	\$258,377

**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*

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

**Unrestricted Net Assets**

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

**Temporarily Restricted Net Assets**

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

**Permanently Restricted Assets**

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

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

*Cash and Cash Equivalents*

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

*Investments*

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

**North Central State College**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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

*Donated Service and Facilities*

The Foundation has no employees or property (other than cash and investments). Substantially all clerical and management duties are presently performed by business office personnel who are employees of North Central State College, utilizing equipment and facilities of North Central State College.

For accounting purposes, the value of facilities is considered immaterial and it has not been recognized in the financial statements. However, the value of the services provided by College personnel in the amount of \$3,230 have been recognized in the Statement of Activities as other supporting revenue and as other supporting expenses as required by SFAS 116.

*Contributions Receivable*

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

*Prepaid Expenses*

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

*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. As of June 30, 2005, all fixed assets were fully depreciated.

*Deferred Revenue*

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

*Estimates*

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

**North Central State College**  
*Notes to the Basic Financial Statements*  
For the Fiscal Year Ended June 30, 2005

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

**INVESTMENTS**

The various investments in fixed income securities, mutual funds and other investment securities are exposed to various risks, such as interest rate, market fluctuations, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities could occur in the near term and those changes could materially affect the amounts reported in the financial statements.

At June 30, 2005, investments consisted of the following:

	Carrying Value	Market Value
Money Market Investments –		
U.S. Government Obligations	\$90,735	\$90,735
Mutual Funds - Fixed Income Corporations	504,217	504,217
Mutual Funds - Equity Securities	1,045,061	1,045,061
Total	\$1,640,013	\$1,640,013

**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, 2005 was 3.25%. The amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until conditions of those promises have been met.

Contributions receivable consisted of the following at June 30, 2005:

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

Unrestricted	\$625
Temporarily restricted	82,350
Permanently restricted	11,000
Gross unconditional promises to give	93,975
Less: Unamortized discount	(2,662)
Less: Allowance for uncollectible contributions	(9,148)
Net unconditional promises to give	\$82,165
Amounts due:	
Less than one year	\$57,540
One to five years	24,625
Net unconditional promises to give	\$82,165

**North Central State College**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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

**TEMPORARILY RESTRICTED NET ASSETS**

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

Total Scholarships for Students            \$54,088

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

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

<b><u>Scholarships for Students:</u></b>	
Brown Scholarship	\$250
Cobey Scholarship	450
Computer Center	1,492
Emerson Scholarship	2,250
Equipment	5,986
Faculty Scholarship	4,500
G-R Civic Scholarship	450
Garber Scholarship	600
Gimbel-Health Chair	1,834
Gimble Scholarships	13,298
Gorman-Rupp Scholarship	3,000
Gubkin Scholarship	400
Haring Scholarship	1,000
KMU Scholarship	275
Mansfield University	4,552
Nursing Scholarship	5,500
Orange and Blue Scholarship	1,500
Paralegal Library	322
Preston Endowment	725
Rable Machine Scholarship	1,666
Welsh Scholarship	1,275
Kroger Scholarship	500
Miller-Carter Scholarship	198
President Emeritus Scholarship	500
Tech Prep	3,834
Scholarships (General)	45,634
YES Scholarship	1,500
Professional Development	318
Richland County Foundation	250,000
Total Temporarily Restricted	\$353,809

**North Central State College**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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

**PERMANENTLY RESTRICTED NET ASSETS**

**Endowment Scholarships for Students:**

Brown Scholarship	\$5,846
Cobey Scholarship	21,011
Emerson Scholarship	101,717
Faculty Scholarship	10,868
G-R Civic Scholarship	21,308
Garber Scholarship	29,708
Gimble Health Chair	134,510
Gorman-Rupp Scholarship	56,373
Gubkin Scholarship	6,918
Haring Scholarship	18,167
KMU Scholarship	6,023
Kroger Scholarship	28,290
NCOBDC Scholarship	2,204
Neer Scholarship	2,327
Nursing Scholarship	231,027
Respiratory Care Endowment	374
Orange and Blue Scholarship	65,187
Preston Endowment	31,621
Welsh Scholarship	51,294
Williams Human Services Fund	1,060
President Emeritus Endowment	12,476
Entrepreneur Endowment (Y.E.S.)	9,715
Restricted Contributions	<u>7,588</u>
Total Permanently Restricted	<u><u>\$855,612</u></u>

**RICHLAND COUNTY FOUNDATION**

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

In accordance with SFAS No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Hold 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, 2005.

**North Central State College**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2005*

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

Also, under SFAS No. 136, the portion of this fund contributed by unrelated third party donors is considered a contribution to the Richland County Foundation and is included in the net assets of Richland County Foundation. The amount recognized in the Statement of Financial Position of the Richland County Foundation at June 30, 2005 totaled \$279,460.

**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.

**RESTATEMENT OF NET ASSETS**

As a result of correcting an error from a prior year, the Foundation restated its net assets. This restatement had the following effect:

	<u>June 30, 2004</u>	<u>Restatement</u>	<u>July 1, 2004</u>
Unrestricted	\$852,558	(\$350,000)	\$502,558
Temporarily Restricted	511,662	(213,350)	298,312

**North Central State College**  
*Schedule of Federal Awards Expenditures*  
*For the Fiscal Year Ended June 30, 2005*

Federal Grantor/ Pass Through Grantor Program Title	CFDA #	Pass Through Entity Number	Disbursements
<b>United States Department of Education</b>			
Student Financial Assistance Programs Cluster:			
Federal Supplemental Educational Opportunity Grant	84.007	N/A	\$124,021
Federal Family Education Loan Program	84.032	N/A	2,221,339
Federal Work-Study Program	84.033	N/A	112,143
Federal Pell Grant Program	84.063	N/A	2,754,508
<i>Total Federal Student Financial Assistance Programs Cluster</i>			<u>5,212,011</u>
<i>Passed Through the Ohio Department of Education:</i>			
Vocational Education - Basic Grants to States	84.048	20A0/20C3	96,750
Tech-Prep Education	84.243	3ETC	156,057
<i>Total Passed Through the Ohio Department of Education</i>			<u>252,807</u>
Total United States Department of Education			<u>5,464,818</u>
<b>United States Department of Labor</b>			
<i>Passed Through Ohio Bureau of Employment Services:</i>			
Trade Adjustment Assistance - Workers	17.245	70502-038	43,452
<i>Passed Through Ohio Department of Education:</i>			
WIA Adult Program	17.258	WFHS	20,730
Total United States Department of Labor			<u>64,182</u>
<b>United States Department of Health and Human Services</b>			
Head Start	93.600	N/A	461,997
Total United States Department of Health and Human Services			<u>461,997</u>
<b>Department of Agriculture</b>			
<i>Passed Through the Ohio Department of Education</i>			
Child and Adult Care Food Program	10.558	CCCN/CCMN/LUCN	33,673
Total United States Department of Agriculture			<u>33,673</u>
Total Federal Financial Assistance			<u>\$6,024,670</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*  
*For the Fiscal Year Ended June 30, 2005*

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**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, 2005, the College processed new loans under the Guaranteed Student Loan Program. Several banks act as lenders for the College. The amount shown reflects the fiscal year amount that has been certified by the College.

# BALESTRA, HARR & SCHERER, CPAs, Inc.

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

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

We have audited the accompanying financial statements of North Central State College (the College) and its discretely presented component unit as of and for the year ended June 30, 2005, and have issued our report thereon dated December 14, 2005, in which we indicated the College adopted GASB Statement No. 40. 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 opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### **Compliance and Other Matters**

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

We noted certain matters that we reported to the management of the College in a separate letter dated December 14, 2005.

Board of Trustees  
North Central State College  
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance With *Government Auditing Standards*  
Page 2

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

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

Balestra, Harr & Scherer, CPAs, Inc.  
December 14, 2005

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## **Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133**

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

### **Compliance**

We have audited the compliance of North Central State College (the College), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

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

In our opinion, the College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

### **Internal Control Over Compliance**

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

Board of Trustees  
North Central State College  
Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over  
Compliance in Accordance With OMB Circular A-133  
Page 2

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

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



Balestra, Harr & Scherer, CPAs, Inc.  
December 14, 2005

**NORTH CENTRAL STATE COLLEGE**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**OMB CIRCULAR A-133 SECTION .505**  
**FOR THE YEAR ENDED JUNE 30, 2005**

**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 (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, 2005**

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

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

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



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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  
JANUARY 12, 2006**