Washington State Community College

Audited Financial Statements

June 30, 2006

Mary Taylor, CPA
Auditor of State

January 8, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

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Auditor of State
Betty Montgomery

Board of Trustees
Washington State Community College
710 Colgate Drive
Marietta, Ohio 45750

We have reviewed the *Report of Independent Auditors* of the Washington State Community College, Washington County, prepared by Rea & Associates, Inc. for the audit period July 1, 2005 through June 30, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

December 27, 2006

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WASHINGTON STATE COMMUNITY COLLEGE
MARIETTA, OHIO

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

September 29, 2006

Board of Trustees
Washington State Community College
Washington County
710 Colegate Drive
Marietta, OH 45750

Independent Auditor's Report

We have audited the accompanying financial statements of Washington State Community College (the College), a component unit of the State of Ohio, and the aggregate discretely presented component unit, as of and for the years ended June 30, 2006 and 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 opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the College and the discretely presented component unit, as of June 30, 2006 and 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2006, on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by the 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 opinions on the financial statements that collectively comprise the College's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U. S. Office of Management and Budget Circular A-133, Audit 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.

Rea & Associates, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Washington State Community College (the College) Management Discussion and Analysis (MD&A) of its financial condition provides an overview of the financial performance of the College for the year ended June 30, 2006. This discussion has been prepared by management and should be read in conjunction with the accompanying financial statements and notes.

Financial Highlights

The College's financial statements for FY 2005-2006 reported net assets of $21.3 million at June 30, 2006. This represents an increase of $1 million from the previous fiscal year, primarily a result of the expansion project of the engineering wing, allowing for growth in both the HVAC and Auto/Diesel instructional programs.

A 5.4% increase in enrollment from the previous year and a tuition rate increase of 4.2% at the start of the academic year resulted in a net tuition and fees increase of $459,000. State appropriations increased about 11% from the previous fiscal year and 14% in fiscal year 2005.

Using the Annual Report

This annual report consists of a series of financial statements, prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities* (GASB 35).

One of the most important questions asked about College finances is whether the College is better off as a result of the year's activities. One key to answering this question is the financial statements of the College. The Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows present financial information on the College, in a format similar to that used by corporations, and present a long-term view of the College's finances. The College's net assets (the difference between assets and liabilities) are one indicator of the College's financial health. Over time, increases or decreases in net assets are an indicator of the improvement or erosion of the College's financial health, when considered in conjunction with non-financial facts such as enrollment levels and conditions of facilities.

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 the service is provided and expenses and liabilities are recognized when others provide the service, 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. GASB 35 requires state appropriations to be classified as nonoperating revenues. Accordingly, the College will generate a net operating loss prior to the addition of nonoperating revenues. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

Another 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, financing and investing activities.

Condensed Financial Information

Statement of Net Assets (in thousands)

ASSETS	2006	2005	2004
Current assets	$ 6,650	$ 4,871	$ 4,195
Capital assets, net	18,023	17,816	18,413
Other non-current assets	116	112	112
Total assets	$ 24,789	$ 22,799	$ 22,720
LIABILITIES			
Current liabilities	$ 3,044	$ 2,107	$ 2,003
Non-current liabilities	398	356	367
Total liabilities	3,442	2,463	2,370
NET ASSETS			
Invested in capital assets, net of related debt	18,023	17,816	18,413
Restricted			
Nonexpendable	100	100	112
Expendable	885	501	494
Unrestricted	2,340	1,919	1,330
Total net assets	$ 21,347	$ 20,336	$ 20,349

A review of the College's statement of net assets at June 30, 2006 shows that the College continues to build a strong financial foundation.

Assets As of June 30, 2006, the College's total assets amount to approximately $24.8 million. Investment in capital assets, net of depreciation, represented the College's largest asset, totaling $18.0 million or 73 percent of total assets. Cash and cash equivalents represented the next largest asset, totaling $3.3 million or 13.3 percent of total assets.

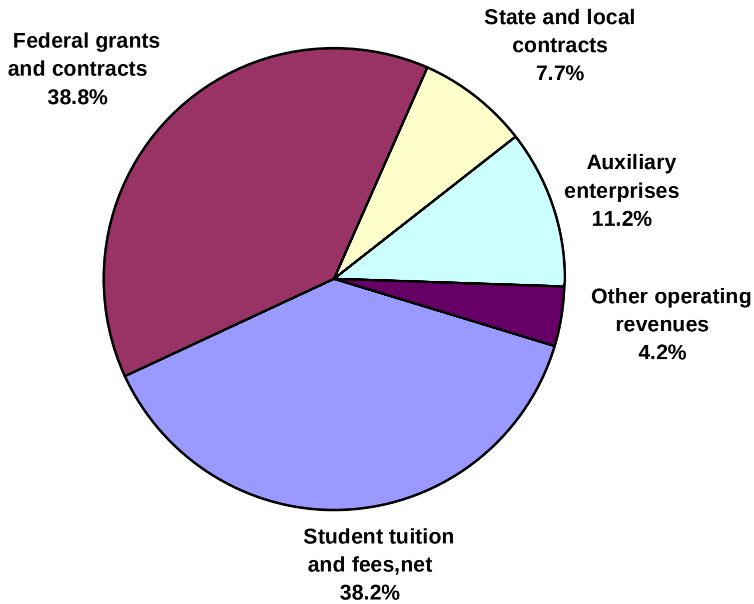
Liabilities At June 30, 2006, the College's liabilities totaled approximately $3.4 million. Accounts payable, accrued liabilities, and deferred revenue represented $3.0 million or 88 percent, of total liabilities.

Net Assets Net assets at June 30, 2006 totaled approximately $21.3 million, or 84 percent, of total assets. Net assets invested in capital totaled $18.0 million or 86 percent, of total net assets. Restricted and unrestricted net assets represented 4.6 percent and 10.9 percent of total net assets, respectively.

Statement of Revenues, Expenses and Changes in Net Assets (in thousands)

OPERATING REVENUES	**2006**	**2005**	**2004**
Student tuition and fees, net	$ 4,349	$ 3,870	$ 3,425
Grants and contracts	5,286	4,762	4,495
Auxiliary enterprises:	1,270	1,132	1,097
Other operating revenues	477	357	1,877
Total operating revenues	11,382	10,121	10,894
OPERATING EXPENSES			
Educational and General	14,293	13,450	13,403
Depreciation	740	722	673
Auxiliary enterprises	1,556	1,349	1,396
Total operating expenses	16,589	15,521	15,472
Operating income (loss)	(5,207)	(5,400)	(4,578)
NONOPERATING REVENUES (EXPENSES)			
State appropriations	5,404	5,291	4,623
Investment income	113	8	12
Other non-operating income (expenses)	98	44	30
Net non-operating revenues	5,615	5,343	4,665
Income before other revenues, expenses, gains, or losses	408	(57)	87
Capital appropriations	603	44	748
Capital grants and gifts	0	0	0
Total other revenues	603	44	748
Increase in net assets	1,011	(13)	835
Net assets-beginning of year	20,336	20,349	19,514
Net assets-end of year	$ 21,347	$ 20,336	$ 20,349

OPERATING REVENUES

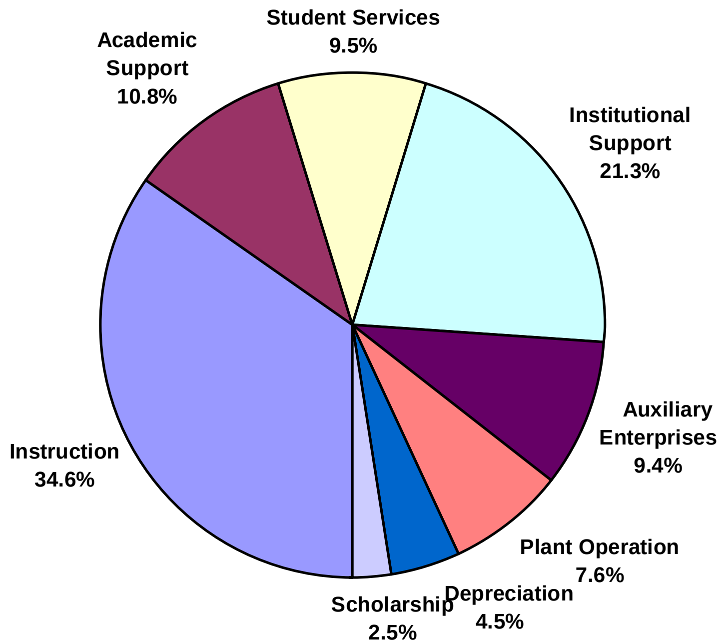


Total operating revenues were approximately $11.4 million for the year ended June 30, 2006. The most significant sources of operating revenue for the College are federal grants and contracts (38.8 percent), net student tuition and fees (38.2 percent), and auxiliary enterprises, which include the Bookstore and Child Development Center (11.2 percent).

Tuition and fees continued to be one of the largest sources of operating revenues for the College. Income from student tuition and fees increased slightly because of a 5.4 percent increase in full-time enrollment equivalent during the academic year.

There are other significant recurring sources of revenues essential to the operation of the College, including state appropriations and investment income, which are considered nonoperating revenues as defined by GASB 35. The College's state appropriations for the year ended June 30, 2006, amounted to $5.4 million. This represents an increase of $113 thousand from the College's appropriations for the prior year.

OPERATING EXPENSES



Operating expenses, including $740 thousand of depreciation, totaled approximately $16.6 million. As depicted in the chart above, the majority of the College's operating funds are expended directly for the primary mission of the College – instruction (34.6 percent), institutional support (21.3 percent), and academic support (10.8 percent). One of the College's core values is to provide students access to the College with the opportunity to succeed. The College's continued investment in student financial aid programs and student support services reflects this commitment.

For the year ended June 30, 2006, student financial aid related to tuition and fees totaled $3.0 million, including student aid expenses of $2.6 million and scholarship allowances of $409 thousand. This represents a 3 percent increase in the approximately $2.5 million expended for financial aid related to tuition and fees in the prior year.

Statement of Cash Flows (in thousands)

Net cash provided (used) by:	2006	2005	2004
Operating activities	$ (4,406)	$ (4,772)	$ (3,132)
Noncapital financing activities	5,502	5,335	4,653
Capital financing activities	(344)	(80)	(723)
Investing activities	109	7	7
Net increase in cash	861	490	805
Cash-beginning of year	2,477	1,987	1,182
Cash-end of year	$ 3,338	$ 2,477	$ 1,987

Another way to assess the financial health of an institution is to look at 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 funds included in operating activities are student tuition and fees ($2.5 million) and grants and contracts ($5.6 million). The largest cash payments for operating activities were to employees, for wages and benefits, ($10.8 million) and to suppliers and related services ($2.6 million).

The largest cash receipt in the noncapital financing activities group is the operating appropriation from the State of Ohio. Cash used by capital and related financing activities is primarily expended on the construction and acquisition of capital assets. Cash provided by investing activities reflects the investment return on investments.

Capital Assets

Capital assets, net of accumulated depreciation, totaled approximately $18.0 million at June 30, 2006, a net increase of $207 thousand over the prior year-end due in part to the expansion of the engineering wing.

FACTORS IMPACTING FUTURE PERIODS

The College continues to experience enrollment growth, accommodating an approximate 5.4% increase in FTE from 04/05 to 05/06. Total FTE for academic year 05/06 was 5,303 (accumulative over 4 quarters). Students in our health sciences programs accounted for 32% of our enrollment, with business technology students representing 18% and engineering students 10%.

The College is committed to providing access to high quality, affordable education to all residents of the mid-Ohio valley. In support of this, increases in tuition have been less than the average for Ohio two-year colleges and less than the maximum increase permitted by the State of Ohio. Going into 05/06 the increase in tuition was 4.2%, or $3.00 per credit hour. Full-time tuition and fees for the year was $3,510. The change in tuition for academic year 06/07 is slightly more than 1%, or $1.00 per hour.

During the year the College reviewed its structure of pay for full-time and regularly-scheduled part-time faculty and staff. The new system allows for pay grades and ranges within each grade. Conversion from the "old" system to the "new" is being accomplished in phases, so as to not incur significant new costs at any one point in time. The new system should be fully implemented in January 2007. Salaries and benefits account for approximately 72% in FY 05/06, increasing to 74% in 06/07.

While the College is entering its 35th year, the campus itself is only 15 years old and is in excellent condition. Only minor upgrades and space renovations have been required to date. Repair of one parking lot, removal of worn carpet, and replacement of an air conditioning system are planned for summer of 2006, and will be accomplished by using operating and Basic Renovation funds provided by the State.

The College continues to work toward future enhancements to the campus. Currently completing a feasibility study for the construction of a conference center, and considering the need for a health sciences classroom building, College officials are aggressively pursuing partners and funding sources. Other projects include the creation of a second entrance to the campus and construction of an additional parking lot, an arts and cultural center, and an amphitheatre. A recently-completed extension of the engineering wing allowed for enhancement of our auto/diesel and HVAC technology programs. Also accomplished during 05/06 were the renovation of the biology lab and the conversion of a servery to a full kitchen in the child development center.

Management will continue to search for ways to allow the College to become more efficient and effective. The increasing cost of utilities, health insurance, and staffing will be closely monitored as we proceed through fiscal year 06/07, and as we learn more about the State's new biennial budget which begins July 1, 2007.

WASHINGTON STATE COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
JUNE 30, 2006 AND 2005

	2006		2005	
	Washington State Community College	Component Unit Washington State Foundation	Washington State Community College	Component Unit Washington State Foundation
ASSETS				
Current Assets				
Cash and cash equivalents	$ 3,338,347	$ 158,155	$ 2,477,391	$ 197,435
Accounts receivable (net of allowance for doubtful accounts, $71,074 in 2006 and $39,392 in 2005)	3,152,845		2,282,051	
Pledges Receivable		1,651		
Inventories	135,810		93,258	
Prepaid expenses	23,068		17,960	
Other Assets		3,175		
Total current assets	6,650,070	162,981	4,870,660	197,435
Noncurrent Assets				
Investments	116,672		112,734	
Capital assets, net	18,022,667		17,815,937	
Total noncurrent assets	18,139,339	0	17,928,671	0
Total Assets	24,789,409	162,981	22,799,331	197,435
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	1,065,470	33	1,051,082	189
Deferred revenue	1,919,614		1,000,695	
Compensated absences - current portion	58,910		54,765	
Total current liabilities	3,043,994	33	2,106,542	189
Noncurrent Liabilities				
Deposits	4,935		388	
Deferred revenue	59,574		45,399	
Compensated absences	333,825		310,337	
Total noncurrent liabilities	398,334	0	356,124	0
Total liabilities	3,442,328	33	2,462,666	189
NET ASSETS				
Invested in capital assets, net of related debt	18,022,667		17,815,937	
Restricted for				
Nonexpendable				
Scholarship and fellowships	100,000	30,936	100,000	
Expendable				
Scholarship and fellowships	16,672	93,005	12,734	182,083
Capital Projects	868,210	8,406	488,673	
Unrestricted	2,339,532	30,601	1,919,321	15,163
Total net assets	$ 21,347,081	$ 162,948	$ 20,336,665	$ 197,246

The accompanying notes are an integral part of these financial statements.

WASHINGTON STATE COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006		2005	
	Washington State Community College	Component Unit Community College Foundation	Washington State Community College	Component Unit Community College Foundation
REVENUES				
Operating Revenues				
Student tuition and fees (net of scholarship allowances of $2,615,098 in 2006 and $2,534,497 in 2005)	$ 4,348,553		$ 3,869,749	
Federal grants and contracts	4,411,608		4,019,279	
State and local grants and contracts	874,528		742,471	
Private Grants and Contracts	0	$ 162,117	0	$ 194,364
Sales and service of educational departments	239,599		193,364	
Auxiliary enterprises:				
Bookstore	952,754		817,333	
Child Development Center	317,984		314,956	
Other Operating Revenue	235,760		164,130	
Total operating revenue	11,380,786	162,117	10,121,282	194,364
EXPENSES				
Operating Expenses				
Educational and general				
Instructional and Departmental Research	5,744,417	121,744	5,318,799	20,836
Academic Support	1,784,113	53,767	1,604,004	
Student Services	1,569,900		1,464,727	
Institutional Support	3,525,402	17,501	3,468,383	9,500
Operation and Maintenance of plant	1,258,754		1,146,866	
Depreciation	740,029		721,758	
Scholarships and fellowships	409,803	7,500	446,874	5,100
Auxiliary Services				
Bookstore	1,167,286		980,456	
Child Care Center	388,696		368,818	
Other Expenditures	327		700	
Total operating expenses	16,588,727	200,512	15,521,385	35,436
Operating Income (loss)	(5,207,941)	(38,395)	(5,400,103)	158,928
NONOPERATING REVENUES (EXPENSES)				
State Appropriations (Subsidy)	5,403,975		5,290,685	
Gifts	98,312		44,679	
Investment Income	113,064	4,097	8,126	474
Net nonoperating revenues	5,615,351	4,097	5,343,490	474
Income before other revenues, expenses, gains, or loss	407,410	(34,298)	(56,613)	159,402
Capital appropriations	603,006		43,805	
Increase (decrease) in net assets	1,010,416	(34,298)	(12,808)	159,402
NET ASSETS				
Net assets - beginning of year	20,336,665	197,246	20,349,473	37,844
Net assets - end of year	$ 21,347,081	$ 162,948	$ 20,336,665	$ 197,246

The accompanying notes are an integral part of these financial statements.

WASHINGTON STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006		2005	
	Washington State Community College	Component Unit Community College Foundation	Washington State Community College	Component Unit Community College Foundation
CASH FLOWS FROM OPERATING ACTIVITES:				
Tuition and Fees	$ 2,461,807		$ 3,093,323	
Grants and contracts	5,618,509	$ (35,877)	4,637,661	$ 149,367
Payments to suppliers and utilities	(2,554,234)		(2,019,759)	
Payments to employees and benefits	(10,878,793)		(11,100,109)	
Payments for scholarships and fellowships	(409,803)	(7,500)	(446,874)	(5,100)
Loans issued to students and employees	(327)			
Collection of loans to students and employees	260			
Auxiliary enterprises	881,080		832,209	
Other receipts	474,798		231,845	(9,500)
Net cash provided (used) by operating activities	(4,406,703)	(43,377)	(4,771,704)	134,767
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
State Appropriations	5,403,975		5,290,685	
Gifts and grants for other than capital purposes	98,312		44,679	
Net cash provided by noncapital financing activities	5,502,287	0	5,335,364	0
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:				
Capital Appropriations	603,006		43,805	
Purchases of capital assets	(946,759)		(124,251)	
Net cash used by capital financing activities	(343,753)	0	(80,446)	0
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest on investments	109,125	4,097	7,020	474
Net cash provided by investing activites	109,125	4,097	7,020	474
NET INCREASE IN CASH:	860,956	(39,280)	490,296	135,241
Cash and Cash Equivalents - beginning of year	2,477,391	197,435	1,987,095	62,194
Cash and Cash Equivalents - end of year	$ 3,338,347	$ 158,155	$ 2,477,391	$ 197,435
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	$ (5,207,941)	$ (38,395)	$ (5,400,103)	$ 158,928
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	740,029		721,758	
Changes in assets and liabilites:				
Receivables, net	(870,794)		(199,745)	
Pledges Receivable		(1,651)		
Inventories	(42,552)		17,817	
Other assets	(5,108)	(3,175)	(3,936)	
Accounts payable	14,388	(156)	(133,785)	(24,161)
Deferred revenue	933,094		239,570	
Deposits held for others	4,547		388	
Compensated absences	27,634		(13,606)	
Net cash provided (used) by operating activities:	$ (4,406,703)	$ (43,377)	$ (4,771,642)	$ 134,767
NONCASH TRANSACTIONS				
In-Kind Contributions		$ 13,832		

The accompanying notes are an integral part of these financial statements.

NOTE 1 – DESCRIPTION OF THE REPORTING ENTITY

The Washington State Community College (the College) was originally chartered on September 17, 1971, by the Ohio Board of Regents in accordance with Section 3357.02 of the Ohio Revised Code. In 1991, the College's charter was revised to conform to the provisions of Section 3358.02 of the Ohio Revised Code. Also, the College began operating as a state community college on this date and changed its name from Washington Technical College to Washington State Community College. The College operates under an appointed Board of Trustees. The College is a component unit of the State of Ohio. The College is fully accredited by the North Central Association of Colleges and Schools.

The Washington State Foundation (Foundation) is a legally separate, tax-exempt organization supporting the College. The Foundation acts primarily as a fundraising organization to supplement the resources that are available to the College in support of its programs. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests, are restricted to the activities of the College by donors. Based upon the provisions in *Governmental Accounting Standards Board* (GASB) *Statement No. 14 – Reporting Entity* and subsequent amendments in GASB Statement No. 39, the Foundation is considered a component unit of the College and is discretely presented in the College's financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Presentation

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

GASB Statement No. 35, *Basic Financial Statements — and Management's Discussion and Analysis — for Public Colleges and Universities*, as amended by subsequent GASB Statements establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net assets categories:

- **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 improvement of those assets.

- **Restricted:**
  Nonexpendable — Net assets subject to externally imposed stipulations that they be maintained permanently by the College. Such assets include the College's permanent endowment funds.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

The financial statement presentation required by GASB Statement No. 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. Accrual Basis

The financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. The College reports as a Business Type Activity (BTA) as defined by GASB 35. BTAs are those activities that are financed in whole or part by fees charged to external parties for goods and services.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary funds and Other Governmental Entities That Uses Proprietary Fund Accounting*, the College is required to follow all applicable GASB pronouncements. In addition, the College should apply all applicable Financial Accounting Standards Board (the "FASB") Statements and Interpretations, Accounting Principles Board (the "APB" Opinions and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The College had elected to not apply FASB statements and interpretations issued after November 30, 1989.

c. Cash and Cash Equivalents

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

For purposes of the statement of cash flows and for presentation of the statement of net assets, investments with original maturities of three months or less at the time they are purchased by the College are considered to be cash and cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Capital Assets

Capital assets are stated at cost at date of acquisition or, in the case of gifts, at fair market value at date of gift. Equipment with a unit cost of $3,000 or more and having an estimated useful life of greater than one year is capitalized. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

Depreciation of capital assets is computed on a straight-line basis over the estimated useful lives of the respective assets, generally 20 years for land improvements, 10—40 years for buildings and fixed equipment, 15 years for library books and 4—10 years for equipment.

e. Inventories

Inventories are stated at cost (first-in, first-out, or average cost).

f. Investments

Investments are stated at fair value.

g. Deferred Revenue

Deferred revenue consists primarily of summer school fees. The College has deferred amounts received for tuition and fees prior to June 30, 2006 and 2005 but relate to the subsequent accounting period.

h. Accounts Receivable

Accounts receivable represents the balance of unpaid student tuition charges, federal and state grants receivable, and miscellaneous receivables owed to the College. To implement a system which allows for on-line payment of tuition and fees a change in accounting for receivables was necessary, creating the receivables at the time of registration rather than at the time of payment on account. That change resulted in a one-time significant increase in accounts receivable from the prior year to the current.

i. Allowance for Doubtful Accounts

The allowance for doubtful accounts is determined by management based on the College's historical losses, specific student circumstances and general economic conditions. Periodically, management reviews accounts receivable and records an allowance for specific students based on current circumstances and charges off the receivable against the allowance when all attempts to collect the receivable have failed.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j. Restricted Asset Spending Policy

The College's policy is that restrictions on assets cannot be fulfilled by the expenditure of unrestricted funds for similar purposes. The determination on whether restricted or unrestricted funds are expended for a particular purpose is made on a case-by-case basis. Restricted funds remain restricted until spent for the intended purpose.

k. Operating Activities

The College defines operating activities, as reported on the statements of revenues, expenses, and changes in net assets, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for services and good received. Nearly all of the College's expenses are from exchange transactions. Certain significant revenues relied upon for operations, such as state appropriations, gifts and investment income, are recorded as non-operating revenues, in accordance with GASB Statement No. 35.

l. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

m. Non-current Long-Term Liabilities

Non-current long-term liabilities include compensated absences that will not be paid within the next fiscal year.

n. Compensated Absences

The College has adopted GASB No. 16.

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 these conditions are met:

a. The employee's right to receive compensation is attributable to services already rendered.
b. It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

For vacation leave the College posts a liability for 100% of accumulated vacation time.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A liability for sick leave and other compensated absences with similar characteristics (hereinafter referred to as "sick leave") should be accrued using one of the following termination approaches:

a. The sick leave liability generally would be an estimate based on governmental entity's past experience of making termination payments for sick leave, adjusted for the effects of changes in its termination payment policy and other current factors. This approach is known as the termination payment method.

b. The sick leave liability would be an accrual for those employees expected to become eligible in the near future based on assumptions concerning the probability that individual employees or classes or groups of employees will become eligible to receive termination benefits. This accumulation should be reduced to the maximum amount allowed as a termination benefit. This approach is known as the vesting method.

For sick leave liability, the College uses the vesting method. The College posts a liability for any employee with tens years of service in the retirement system. These accumulations are reduced to the maximum amount allowed as a termination payment.

o. Scholarship Allowances

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

p. Budgetary Process

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

q. 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.

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLES

A. The GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which requires the government to report the effect of capital asset impairment when it occurs and to account for insurance recoveries in a similar manner. The implementation of the statement has made no impact on the College's financial reporting or results of financial position for fiscal year 2006.

B. The GASB issued Statement No. 47, Accounting for Termination Benefits, which requires the government to report the effect of termination benefits including early-retirement incentives, severance benefits, and other termination-related benefits. Termination benefits are benefits provided by employers to employees as an inducement to hasten the termination of services or as a result of a voluntary early termination (voluntary termination benefits) or as a consequence of the involuntary early termination of services (involuntary termination benefits). The implementation of the statement has made no impact on the College's financial reporting or results of financial position for fiscal year 2006.

NOTE 4 - CASH, CASH EQUIVALENTS, AND INVESTMENTS

State statutes classify monies held by the College into three categories.

Active deposits are public deposits necessary to meet current demand on the treasury. Such monies must be maintained either as cash in the College treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

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

NOTE 4 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

4. Bond and other obligations of the State of Ohio.

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

6. The State Treasurer's investment pool (STAROhio);

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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

NOTE 4 - CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the College.

At fiscal year-end, the carrying amount of the College's deposits was $3,336,998. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2006, $3,453,975 of the College's bank balance of $3,659,123 was exposed to custodial credit risk as discussed above, while $205,148 was covered by Federal Deposit Insurance Corporation.

Investments

As of June 30, 2006, the College had the following investments and maturities:

		Investment Maturities			
Investment Type	Fair Value	Less than One Year	1-5 Years	5-10 Years	More Than 10 Years
Merrill Lynch Ready Asset Fund	$ 4,572	$ 4,552	$ 0	$ 0	$ 0
U.S. Agency Obligations	4,410	0	0	0	4,410
Equity Funds	97,059	97,059	0	0	0
Fixed Income Funds	10,631	0	10,631	0	0
Total	$ 116,672	$ 101,611	$ 10,631	$ 0	$ 4,410

These investments were donated to the College for the Greacen Memorial Nursing Scholarship. The College does not have any other investments and therefore has no investment policy.

Credit Risk. The U.S. Agency Obligations, which are FNMA bonds, are not rated but are backed by the full faith of the U.S. Government. The other investments are not rated.

NOTE 5 - NOTES, LOANS AND ACCOUNTS RECEIVABLE

Notes, loans and accounts receivable as of June 30, 2006 and 2005 are as follows:

	2006			2005		
	Gross Receivable	Allowance	Net Receivable	Gross Receivable	Allowance	Net Receivable
Students	$ 1,781,619	$ 71,074	$ 1,710,545	$ 969,015	$ 39,392	$ 929,623
Reimbursement receivable-grant and contracts	1,188,461	0	1,188,461	1,129,061	0	1,129,061
Other	253,839	0	253,839	223,367	0	223,367
Total	$ 3,223,919	$ 71,074	$ 3,152,845	$ 2,321,443	$ 39,392	$ 2,282,051

NOTE 6 - CAPITAL ASSETS, NET

Capital assets as of June 30, 2006 and 2005 are summarized as follows:

	2006			
	2005	Additions	Reductions	2006
Assets:				
Land	$ 980,000	$ 0	$ 0	$ 980,000
Buildings	19,815,051	769,111	0	20,584,162
Land improvements	2,956,919	17,145	0	2,974,064
Library books	408,205	5,570	0	413,775
Moveable equipemnt	3,098,355	154,933	1,613,858	1,639,430
	27,258,530	946,759	1,613,858	26,591,431
Accumulated Depreciation:				
Buildings	4,654,123	500,128	0	5,154,251
Land improvements	1,718,423	148,560	0	1,866,983
Libruary books	309,088	19,912	0	329,000
Moveable equipment	2,760,959	71,428	1,613,858	1,218,529
	9,442,593	740,028	1,613,858	8,568,763
Capital Assets, net	$ 17,815,937	$ 206,731	$ 0	$ 18,022,668

	2005			
	2004	Additions	Reductions	2005
Assets:				
Land	$ 980,000	$ 0	$ 0	$ 980,000
Buildings	19,815,051	0	0	19,815,051
Land improvements	2,905,512	51,407	0	2,956,919
Library books	403,602	4,603	0	408,205
Moveable equipemnt	3,030,114	68,241	0	3,098,355
	27,134,279	124,251	0	27,258,530
Accumulated Depreciation:				
Buildings	4,158,747	495,376	0	4,654,123
Land improvements	1,571,055	147,368	0	1,718,423
Libruary books	300,712	8,376	0	309,088
Moveable equipment	2,690,321	70,638	0	2,760,959
	8,720,835	721,758	0	9,442,593
Capital Assets, net	$ 18,413,444	$ (597,507)	$ 0	$ 17,815,937

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2006 and 2005 are as follows:

	2006	2005
Payable to vendors and contractors	$ 139,131	$ 86,529
Accrued expenses, primarily payroll and vacation leave	441,332	658,645
Employee withholdings and deposits payable to third parties	485,007	305,908
	$ 1,065,470	$ 1,051,082

NOTE 8 – LONG-TERM OBLIGATIONS

The changes in the College's long-term obligations during fiscal year 2006 and 2005 were as follows:

	2006				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Deferred revenue	$ 1,046,093	$ 2,112,333	$(1,179,238)	$ 1,979,188	$ 1,919,614
Compensated absences	365,102	59,532	(31,899)	392,735	58,910
Deposits	0	4,935	0	4,935	0
Total long-term liabilities	$ 1,411,195	$ 2,176,800	$(1,211,137)	$ 2,376,858	$ 1,978,524

	2005				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Deferred revenue	$ 806,523	$ 1,191,643	$ (952,073)	$ 1,046,093	$ 1,000,695
Compensated absences	378,708	49,405	(63,011)	365,102	54,765
Total long-term liabilities	$ 1,185,231	$ 1,241,048	$(1,015,084)	$ 1,411,195	$ 1,055,460

NOTE 9 - PENSION PLANS AND ACCRUED COMPENSATED ABSENCES

The College participates in the State Teachers' Retirement System (STRS) and the School Employees' Retirement System (SERS) retirement plans for academic and nonacademic personnel.

a. School Employees' Retirement System

The College contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code.

SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614) 222-5853.

Plan members were required to contribute 10% of their annual covered salary and the College is required to contribute at an actuarially determined rate. The June 30, 2005 (date of most recent information available) rate was 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The College's contributions to SERS for the years ended June 30, 2006, 2005 and 2004 were $376,483, $355,400 and $371,464, respectively, equal to the required contributions for each year.

b. State Teachers' Retirement System

The State Teachers Retirement System of Ohio (STRS) is a cost-sharing, multiple-employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution, or other agency wholly controlled, managed, and supported in whole, or in part, by the state or any political subdivision thereof.

NOTE 9 - PENSION PLANS AND ACCRUED COMPENSATED ABSENCES (Continued)

New members have a choice of three retirement plans, In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC and Combined Plans are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits – Plan benefits are established by Chapter 3307 of the Ohio Revised Code. Any member may retire who has (1) five years of service credit and attained age 60, (2) 25 years of service credit and attained age 55, or (3) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the "formula benefit" or the "money purchase benefit" calculation. Under the "formula benefit," the retirement allowance is based on years of credited service and final average salary, which is the average of the member's three highest years' salaries. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the "money-purchase benefit" calculation, a member's lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual-retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

NOTE 9 - PENSION PLANS AND ACCRUED COMPENSATED ABSENCES (Continued)

Eligible faculty of Ohio's public college and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS or other Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or lump sum payment in addition to the original retirement allowance. Effective April 11, 2005, a reemployed retiree may alternatively receive a refund of member contributions with interest before age 65, once employment is terminated.

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

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit of Combined Plan member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of members who die before retirement may qualify for survivor benefits. A death benefit of $1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage of up to $2,000 can be purchased by members in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

NOTE 9 - PENSION PLANS AND ACCRUED COMPENSATED ABSENCES (Continued)

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2005 (date of most recent information available) 10% of covered payroll for members and 14% for employers. Employer contributions by the College were $651,433, $609,286, and $602,851 for the years ended June 30, 2006, 2005 and 2004, respectively; 100% of required amounts have been paid for all years.

STRS issues a stand-alone financial report. That report may be obtained after January 1, 2006 by writing to STRS, 275 E. Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

c. Alternative Retirement Plan

The State of Ohio requires public institutions of higher education to offer an alternative retirement plan to those participating in the State Teachers Retirement System. The alternative retirement plan shall be a defined-contribution plan, with the Ohio employer contribution rate of 5.76%. The College has implemented the alternative retirement plan. In fiscal years 2006, 2005 and 2004, the employer match was $17,024, $20,346, and $5,397, respectively.

NOTE 10 - POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

In addition to the pension benefits described in Note 9, the College provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers' Retirement System and to retired non-certified employees and their dependents through the School Employees' Retirement System.

The State Teachers Retirement System provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code (R.C.), the State Teachers Retirement Board (the board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

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

The board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal years ended June 30, 2005 and June 30, 2004, the board allocated employer contributions equal to 1.0% of covered payroll to the Health Care Stabilization Fund. For the College, this amount equaled $46,510 during the 2006 fiscal year. The balance in the Health Care Stabilization Fund was $3.3 billion at June 30, 2005 (the date of the most recent information available).

NOTE 10 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

For the fiscal year ended June 30, 2005 (date of most recent information available), net health care costs paid by STRS Ohio were $254,780,000. There were 115,395 eligible benefit recipients.

Revised Code gives SERS the discretionary authority to provide post-retirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2005, 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% contribution is allocated to providing health care benefits. At June 30, 2005 (the date of the most recent information available) the healthcare allocation rate is 3.43%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2005 (the date of the most recent information available), the minimum pay was established as $27,400. For the College, the amount to fund health care benefits, including surcharge, equaled $132,428 during the 2006 fiscal year. The surcharge, added to the unallocated portion of the 14% 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. Net health care costs for the year ending June 30, 2005 (the date of the most recent information available) were $178,221,113. The target level for the health care fund is 150% of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005 (the date of the most recent information available), the value of the health care fund was $267.5 million, which is about 168% of the next year's projected net health care costs of $158,776,151. On the basis of actuarial projections, the allocated contributions will be insufficient, in the long term, to provide for a health care reserve equal to at least 150% of estimated annual net claim costs.

The number of participants currently receiving health care benefits is approximately 58,123.

NOTE 11 - OPERATING EXPENSES BY NATURAL CLASSIFICATION

The College's operating expenses by natural classification were as follows for the years ended June 30, 2006 and 2005 (amounts for salaries and wages, employee benefits and supplies and other services were reclassified for 2005 due to errors in compilation):

	2006	(Restated) 2005
Salaries and wages	$ 7,177,664	$ 7,200,506
Employee benefits	3,353,679	3,080,047
Utilities	313,600	240,713
Supplies and other services	4,593,952	3,831,486
Depreciation	740,029	721,758
Student scholarships and financial aid	409,803	446,875
	$ 16,588,727	$ 15,521,385

NOTE 12 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts, theft of, damage to, and destructions of assets, errors and omissions, injuries to employees and natural disasters. The College contracts with Utica National Insurance Group for property and general liability insurance, including boiler and machinery coverage. The College has not had a significant reduction in coverage from the prior year.

Vehicles are covered by Utica National Insurance Group and hold a $250 deductible. Automobile liability coverage has a $1,000,000 limit for collision and a $1,000,000 limit for bodily injury. Settled claims have not exceeded any aforementioned commercial coverage in any of the past four years.

The College pays the State Worker's Compensation System a premium based on a rate per $100 of salaries. This rate is calculated based on accident history and administrative cost.

The College provides life insurance, and accidental death and dismemberment insurance to its employees.

The College contracts with Anthem Blue Cross and Blue Shield for hospitalization and CoreSource for dental insurance and Vision Service Plan for vision insurance. The College pays 90% of the total monthly premiums for dental and vision coverages and the employee pays for the remaining 10%. The College pays 75%, 85%, or 90% of the total monthly premiums for hospitalization and major medical and the employees pay the remaining 25%, 15%, or 10% depending on level of benefit chosen. Premiums are paid from the same funds that pay the employees' salaries.

The College is involved from time to time in routine litigation. Management does not believe that the ultimate resolution of this litigation will be material to its financial condition or results of operations.

NOTE 13 – COMPONENT UNIT DISCLOSURES

Equity in Pooled Cash and Cash Equivalents and Investments:

Deposits - Custodial credit risk is the risk that in the event of a failure of a depository financial institution or counterparty to a transaction, the inability to recover the value of deposits, investments or collateral securities in the possession of an outside party. The Foundation has not established a policy for deposits at this time. Of the June 30, 2006 bank balances of $158,535, $100,000 was covered by federal depository insurance and the remaining balance of $58,535 is unsecured.

Investments – As of June 30, 2006 the Foundation had no investments.

Pledges Receivable:

Unconditional promises are included in the financial statements as pledges receivable and revenue of the appropriate net asset category. The Foundation's pledges receivable consisted of amounts pledged by employees of the College and are expected to be fully collected by December 31, 2006.

Support Provided to the College:

During the years ended June 30, 2006 and 2005 the Foundation provided resources of $198,050 and $35,436 to or on behalf of the College for scholarships and other purposes.

September 29, 2006

The Board of Trustees
Washington State Community College
Marietta, OH 45750

Independent Auditor's 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*

We have audited the basic financial statements of Washington State Community College, a component unit of the State of Ohio, as of and for the year ended June 30, 2006, and have issued our report thereon dated September 29, 2006. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 Washington State Community College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic 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 condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic 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. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Washington State Community College in a separate letter dated September 29, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Washington State Community 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 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 for the information of the Board of Trustees, management 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.

Rea & Associates, Inc.

Rea & Associates, Inc.
ACCOUNTANTS AND BUSINESS CONSULTANTS

September 29, 2006

The Board of Trustees
Washington State Community College
Marietta, OH 45750

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

Compliance

We have audited the compliance of Washington State Community College with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Washington State Community 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 Washington State Community College's management. Our responsibility it to express an opinion on Washington State Community 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 Circulars 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 Washington State Community 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 Washington State Community College's compliance with those requirements.

In our opinion, Washington State Community College complied, in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, we noted certain instances of noncompliance that we have reported to management of the College in a separate letter dated September 29, 2006.

Internal Control Over Compliance

The management of Washington State Community 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 Washington State Community College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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. However, we noted other matters involving internal control over compliance and operations that we have reported to management of the College in a separate letter dated September 29, 2006.

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

Rea & Associates, Inc.

WASHINGTON STATE COMMUNITY COLLEGE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For Fiscal Year Ended June 30, 2006

	Federal CFDA Number	Pass through Entity Identifying Number	Expenditures
U.S. Department of Education			
Direct Awards			
Student Financial Aid Cluster			
Federal Pell Grant	84.063		$ 2,989,922
Federal Work Study (Note 3)	84.033		46,776
Federal Family Education Loan (Note 2)	84.032		3,360,226
Total Student Financial Aid Cluster			6,396,924
TRIO Cluster			
Educational Talent Search	84.044		339,433
Student Support Services	84.042		247,353
Upward Bound	84.047		267,637
Total TRIO Cluster			854,423
Child Care Access Means Parents in Schools	84.335		22,920
Passed Through Ohio Department of Education			
Vocational Education - Basic Grants to States	84.048	064345-20C3-2006	75,129
Basic Grants to States			
Technical preparation education	84.243	06435 3ETC 2006	163,253
Total U.S. Department of Education			7,512,649
U.S. Department of Health and Human Services			
Direct Award			
Scholarship for Disadvantaged Students (SDS)	93.925		53,980
U.S. Small Business Administration			
Passed - Through Ohio University:			
Small Business Development Center	59.037	22000130	54,054
Appalachian Regional Commission			
Direct Award			
Appalachian Regional Development	23.001	OH-15289-06	111,390
		OH-15032-05	100,000
			211,390
U.S. Department of Agriculture			
Passed Through Ohio Department of Education			
Food Service	10.558	N/A	15,942
Total Federal Awards			$ 7,848,015

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes federal grant activity of the College and is presented 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. Therefore some amounts presented in this schedule cay differ from amounts presented in, or used in the preparation of the financial statements.

NOTE 2 – OUTSTANDING LOANS

The College does not make Federal Family Education Loans (FFELs). For the fiscal year 2005 - 2006, the College certified need for $3,360,226 in Guaranteed Student Loans and Supplemental Loans. The amount presented represents the value of new FFELs awarded during the fiscal year as follows:

Federal Stafford Loans	$	1,840,635
Federal Unsubsidized Stafford Loans		1,519,591
Total FFELs	$	3,360,226

WASHINGTON STATE COMMUNITY COLLEGE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133, SECTON .505
JUNE 30, 2006

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance 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 Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under Section .510?	No
(d)(1)(vii)	Major Programs (list):	Student Financial Assistance Cluster: CFDA #84.063, 84.033, 84.032 TRIO Cluster: CFDA #84.042, 84.044, 84.047
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: >$300,000 Type B: All others
(d)(1)(ix)	Low Risk Auditee?	Yes

2. FINDINGS RELATING TO THE FINANCIAL STATEMENTS

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

WASHINGTON STATE COMMUNITY COLLEGE

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A-133 § .315(c)
FOR THE YEAR ENDED JUNE 30, 2006

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2005-001	Ohio Rev. Code Section 135.18 requires the institution designated as a public depository to pledge collateral for public deposits.	Yes	

WASHINGTON STATE COMMUNITY COLLEGE
APPOINTED OFFICIALS
June 30, 2006

Board of Trustees:

Title/Name	Term of Office or Contract Period	Surety	Amount of Coverage
Chairperson/ Mike Iaderosa	07/01/02-02/18/08	(A)	$ 1,000,000
Vice-Chairperson/ E. Jean Glenn	02/19/02-02/18/08	(A)	1,000,000
Members			
Harry M. Cosgwell	02/19/03-02/18/09	(A)	1,000,000
John R. Hendricks	02/19/03-02/18/09	(A)	1,000,000
John F. Greacen, Jr.	02/19/05-02/18/11	(A)	1,000,000
Patricia S. Marvin	02/19/05-02/18/11	(A)	1,000,000
Wen-Yu “Frank” Cheng	02/19/03-02/18/09	(A)	1,000,000
Clifford “Mike” Oliver	05/09/05-2/18/11	(A)	1,000,000
Larry Unroe	07/01/05-2/18/08	(A)	1,000,000

(A) Republic Franklin Insurance Company for the period July 1, 2005 through June 30, 2006.

WASHINGTON STATE COMMUNITY COLLEGE
APPOINTED OFFICIALS
June 30, 2006

Name and Address	Title	Surety	Amount of Coverage
Dr. Charlotte R. Hatfield 710 Colegate Drive Marietta, OH 45750	President	(A)	$ 1,000,000
Richard Peoples 710 Colegate Drive Marietta, OH 45750	Vice-President/Treasurer	(A)	1,000,000

(A) Republic Franklin Insurance Company for the period July 1, 2005 through June 30, 2006.

Auditor of State
Betty Montgomery

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

WASHINGTON STATE COMMUNITY COLLEGE

WASHINGTON 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 11, 2007