

Zane State College

Single Audit

July 1, 2004 through June 30, 2005

Fiscal Year Audited Under GAGAS: 2005

BALESTRA, HARR & SCHERER, CPAs, INC.

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**Auditor of State
Betty Montgomery**

Board of Trustees
Zane State College
1555 Newark Rd.
Zanesville, Ohio 43701

We have reviewed the Independent Auditor's Report of the Zane State College, Muskingum County, prepared by Balestra, Harr & Scherer, CPA's, Inc., for the audit period July 1, 2004 to 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 Zane State College is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

January 4, 2006

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ZANE STATE COLLEGE

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Report of Independent Accountants	1
Management’s Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Assets.....	13
Statement of Revenues, Expenses and Changes in Net Assets.....	14
Statement of Cash Flows	15
Notes to Financial Statements	16
Schedule of Federal Awards Expenditures	33
Notes to Schedule of Federal Awards Expenditures	34
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	35
Report on Compliance With Requirements Applicable to Each Major Federal Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	36
Schedule of Findings & Questioned Costs OMB Circular A-133 Section .505	38

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

REPORT OF INDEPENDENT ACCOUNTANTS

Board of Trustees
Zane State College
Muskingum County
1555 Newark Road
Zanesville, Ohio 43701-2626

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Zane 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 opinions on these basic financial statements based on our audit.

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

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

The Management's Discussion and Analysis on pages 3-12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

As described in Note 3 to the basic financial statements, the College implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*.



Balestra, Harr & Scherer, CPAs, Inc.
November 30, 2005

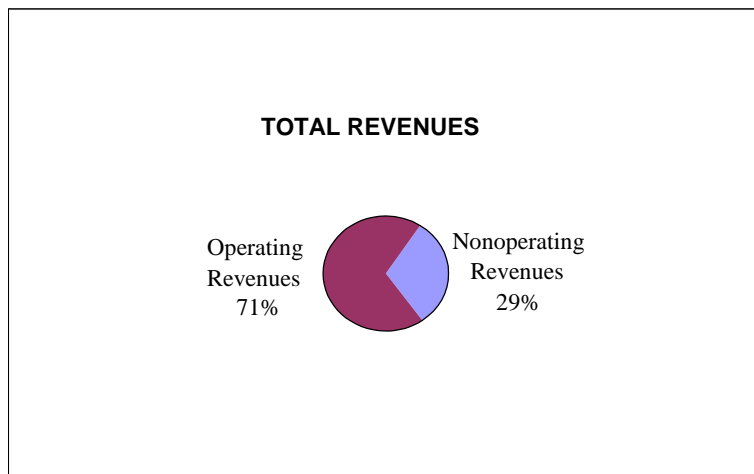
**Zane State College
Management Discussion and Analysis
For the Year Ended June 30, 2005**

The discussion and analysis of Zane State College's financial statements provides an overview of the College's financial activities for the year ending June 30, 2005. Management has prepared the financial statements and the related footnote disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with the preparers. The discussion and analysis contains financial activities of Zane State College.

Financial Highlights

Zane State College's financial position improved during the fiscal year ending June 30, 2005. Its combined net assets increased \$343,644 or 2% from the previous year.

The following chart provides a graphic breakdown of revenues by category for the fiscal year ending June 30, 2005:



In the fiscal year ending June 30, 2005, revenues exceeded expenses, creating the increase in net assets of \$343,644 (compared to a \$530,638 decrease last year).

Using This Annual Report

This report consists of three basic financial statements. The Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows provide information on the College as a whole and presents a long-term view of the College's finances. The following activities are included in the College's basic financial statements:

- **Primary Institution (College):** Most of the programs and services generally associated with a university fall into this category, including instruction, research, public service, and support services.
- **Component Unit (Zane State College):** Most of the College's fund raising and scholarship activity fall into this category.

Zane State College
Management Discussion and Analysis
For the Year Ended June 30, 2005

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets

One of the most important questions asked about the College's finances is, "Is Zane State College as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information on the College as a whole and on its activities in a way that helps answer this question. When revenues and other support exceed expenses, the result is an increase in net assets. When the reverse occurs, the result is a decrease in net assets. The relationship between revenues and expenses may be thought of as Zane State College's operating results.

These two statements report Zane State College's net assets and changes in them. Zane State College's net asset amount – the difference between assets and liabilities – is one way to measure the College's financial health, or financial position. Over time, increases or decreases in the College's net assets are one indicator of whether its financial health is improving. However, several non-financial factors are relevant as well, such as the trend and quality of applicants, freshman class size, student retention, building condition, and campus safety, to assess the overall health of the College.

These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Zane State College
Management Discussion and Analysis
For the Year Ended June 30, 2005

Net Assets Changes-Primary Institution

	<u>6/30/2005</u>	<u>6/30/2004</u>	<u>Net Change</u>
ASSETS			
Current Assets:			
Cash equivalents	\$ 4,852,135	\$ 4,158,975	\$ 693,160
Accounts receivable, net	1,612,512	1,274,197	338,315
Accounts receivable - vendors	187,466	186,987	479
Grants receivable	197,887	338,687	(140,800)
Loans	35	135	(100)
Inventory	318,713	234,540	84,173
Total current assets	<u>7,168,748</u>	<u>6,193,521</u>	<u>975,227</u>
Noncurrent Assets:			
Capital assets, net of accumulated depreciation	<u>12,544,835</u>	<u>13,205,032</u>	<u>(660,197)</u>
Total noncurrent assets	<u>12,544,835</u>	<u>13,205,032</u>	<u>(660,197)</u>
TOTAL ASSETS	<u><u>19,713,583</u></u>	<u><u>19,398,553</u></u>	<u><u>315,030</u></u>
LIABILITIES			
Current Liabilities:			
Accrued wages and benefits	260,294	536,709	(276,415)
Vouchers payable	782,797	510,051	272,746
Compensated absences	41,841	39,232	2,609
Capital lease payable - current portion	61,750	56,230	5,520
Deposits held in custody for others	122,325	35,768	86,557
Deferred revenue	<u>406,070</u>	<u>486,511</u>	<u>(80,441)</u>
Total current liabilities	<u>1,675,077</u>	<u>1,664,501</u>	<u>10,576</u>
Noncurrent Liabilities:			
Compensated absences	356,647	334,518	22,129
Capital lease payable	<u>223,836</u>	<u>285,155</u>	<u>(61,319)</u>
Total noncurrent liabilities	<u>580,483</u>	<u>619,673</u>	<u>(39,190)</u>
TOTAL LIABILITIES	<u><u>2,255,560</u></u>	<u><u>2,284,174</u></u>	<u><u>(28,614)</u></u>
NET ASSETS			
Invested in capital assets, net of related debt	12,259,249	12,863,647	(604,398)
Restricted:			
Expendable:			
Loans	636	736	(100)
Instructional Department uses	463,450	388,935	74,515
Capital projects	1,391,652	1,258,700	132,952
Unrestricted	<u>3,343,036</u>	<u>2,602,361</u>	<u>740,675</u>
Total net assets	<u>17,458,023</u>	<u>17,114,379</u>	<u>343,644</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 19,713,583</u></u>	<u><u>\$ 19,398,553</u></u>	<u><u>\$ 315,030</u></u>

Zane State College
Management Discussion and Analysis
For the Year Ended June 30, 2005

Net Assets Changes- Component Unit- Zane State Foundation

	<u>06/30/05</u>	<u>06/30/04</u>	<u>Net Change</u>
ASSETS			
Current Assets:			
Cash equivalents	\$ 217,241	\$ 1,363	\$ 215,878
Total current assets	<u>217,241</u>	<u>1,363</u>	<u>215,878</u>
Noncurrent Assets:			
Endowment Investments	<u>1,753,322</u>	<u>1,930,474</u>	<u>(177,152)</u>
Total noncurrent assets	<u>1,753,322</u>	<u>1,930,474</u>	<u>(177,152)</u>
TOTAL ASSETS	<u><u>\$ 1,970,563</u></u>	<u><u>\$ 1,931,837</u></u>	<u><u>\$ 38,726</u></u>
NET ASSETS			
Restricted:			
Nonexpendable:			
Scholarships	1,178,476	1,148,387	30,089
Expendable:			
Scholarships	421,284	388,373	32,911
Unrestricted	<u>370,803</u>	<u>395,077</u>	<u>(24,274)</u>
Total net assets	<u>1,970,563</u>	<u>1,931,837</u>	<u>38,726</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,970,563</u></u>	<u><u>\$ 1,931,837</u></u>	<u><u>\$ 38,726</u></u>

Zane State College
Management Discussion and Analysis
For the Year Ended June 30, 2005

Operating Revenues for FY2005 versus FY2004
Primary Institution

	<u>6/30/2005</u>	<u>6/30/2004</u>	<u>Net Change</u>
Operating Revenues			
Tuition and fees	\$ 4,977,449	\$ 4,202,593	\$ 774,856
State grants and contracts	1,057,486	1,246,740	(189,254)
Federal grants and contracts	3,470,081	3,504,362	(34,281)
Local grants	453,565	292,934	160,631
Private gifts and grants	20,000	10,000	10,000
Auxiliary services	2,293,761	2,024,657	269,104
Other	175,411	182,082	(6,671)
Total operating revenues	<u>12,447,753</u>	<u>11,463,368</u>	<u>984,385</u>
Operating Expenses	<u>17,104,116</u>	<u>17,088,586</u>	<u>15,530</u>
Net operating revenues expenses	(4,656,363)	(5,625,218)	968,855
Nonoperating Revenues (Expenses)			
State Appropriations	4,937,222	5,080,223	(143,001)
Investment income	93,080	45,882	47,198
Other nonoperating expenses	(30,295)	(31,525)	1,230
Net nonoperating revenues	<u>5,000,007</u>	<u>5,094,580</u>	<u>(94,573)</u>
Income (loss) before other revenues, expenses, gains or losses	343,644	(530,638)	874,282
Net Assets, beginning of year	<u>17,114,379</u>	<u>17,645,017</u>	<u>(530,638)</u>
Net Assets, end of year	<u><u>\$ 17,458,023</u></u>	<u><u>\$ 17,114,379</u></u>	<u><u>\$ 343,644</u></u>

Tuition and fee revenue increased roughly 18%, which is the result of the number of students increasing along with an increase in tuition of \$4.50. State appropriations decreased by 3% primarily due to the loss in state funding due to budget cuts in fiscal year 2005. Investment income increased from \$45,882 in 2004 to \$93,080 in 2005. This increase is due to rising interest rates.

**Zane State College
Management Discussion and Analysis
For the Year Ended June 30, 2005**

**Operating Expenses for FY2005 versus FY2004
Component Unit- Zane State College Foundation**

	Foundation <u>6/30/2005</u>	Foundation <u>6/30/2004</u>	<u>Net Change</u>
Operating Revenues			
Local appropriations	\$ 44,000	\$ 42,000	\$ 2,000
Contributions	53,694	69,014	(15,320)
Total operating revenues	<u>97,694</u>	<u>111,014</u>	<u>(13,320)</u>
Operating Expenses	<u>67,968</u>	<u>58,688</u>	<u>9,280</u>
Net Income	29,726	52,326	(22,600)
Nonoperating Revenues (Expenses)			
Investment income	85,549	75,628	9,921
Scholarships	(76,549)	(53,441)	(23,108)
Net nonoperating revenues (expenses)	<u>9,000</u>	<u>22,187</u>	<u>(13,187)</u>
Increase in Net Assets	38,726	74,513	(35,787)
Net Assets, beginning of year	<u>1,931,837</u>	<u>1,857,324</u>	<u>74,513</u>
Net Assets, end of year	<u><u>\$ 1,970,563</u></u>	<u><u>\$ 1,931,837</u></u>	<u><u>\$ 38,726</u></u>

**Zane State College
Management Discussion and Analysis
For the Year Ended June 30, 2005**

**Operating Expenses for FY2005 versus FY2004
Primary Institution**

	<u>6/30/2005</u>	<u>6/30/2004</u>	<u>Net Change</u>
Operating Expenses			
Educational and General			
Instructional	\$ 5,319,121	\$ 5,112,937	\$ 206,184
Academic support	977,095	832,307	144,788
Student services	4,746,301	4,717,448	28,853
Institutional support	2,323,328	2,580,199	(256,871)
Depreciation	782,273	802,127	(19,854)
Student aid	2,243	4,981	(2,738)
Operation and maintenance of plant	906,465	992,084	(85,619)
Total Educational and General	<u>15,056,826</u>	<u>15,042,083</u>	<u>14,743</u>
Auxiliary Enterprises			-
Bookstore	1,964,124	1,973,669	(9,545)
Other auxiliary	83,166	72,834	10,332
Total Auxiliary Enterprises	<u>2,047,290</u>	<u>2,046,503</u>	<u>787</u>
Total Operating Expenses	<u>\$ 17,104,116</u>	<u>\$ 17,088,586</u>	<u>\$ 15,530</u>

**Zane State College
Management Discussion and Analysis
For the Year Ended June 30, 2005**

**Operating Expenses for FY2005 versus FY2004
Component Unit- Zane State College Foundation**

	<u>6/30/2005</u>	<u>6/30/2004</u>	<u>Net Change</u>
Operating Expenses			
Educational and General			
General and administrative	\$ 69,331	\$ 58,688	\$ 10,643
Total Educational and General	<u>69,331</u>	<u>58,688</u>	<u>10,643</u>
 Total Operating Expenses	 <u><u>\$69,331</u></u>	 <u><u>\$58,688</u></u>	 <u><u>\$10,643</u></u>

The Statement of Cash Flows

Another way to assess the financial health of an institution is to look at the Statement of Cash Flows. Its primary purpose is to provide relevant information about the cash receipts and cash payments of an entity during a period. The Statement of Cash Flows also helps user assess:

- an entity's ability to generate future net cash flows
- its ability to meet its obligations as they come due
- its need for external financing

**Cash Flows
FY 2005 Versus FY 2004**

	<u>Primary Institution 6/30/05</u>	<u>Primary Institution 6/30/04</u>	<u>Net Change</u>
Cash provided (used) by:	\$ (4,215,699)	\$ (4,844,045)	\$ 628,346
Operating activities			
Noncapital financing activities	4,937,222	5,080,223	(143,001)
Capital and related financing activities	(121,443)	(239,383)	117,940
Investing activities	93,080	45,882	47,198
Net increase (decrease) in cash	<u>693,160</u>	<u>42,677</u>	<u>650,483</u>
 Cash, beginning of year	 <u>4,158,975</u>	 <u>4,116,298</u>	 <u>42,677</u>
Cash, end of year	<u><u>\$ 4,852,135</u></u>	<u><u>\$ 4,158,975</u></u>	<u><u>\$ 693,160</u></u>

**Zane State College
Management Discussion and Analysis
For the Year Ended June 30, 2005**

Capital and Debt Administration

Capital Assets

At June 30, 2005, the College had some \$12,544,835 invested in capital assets, net of accumulated depreciation of \$8,998,843. Depreciation charges totaled \$782,273 for the current fiscal year. Details of these assets for the two years are shown below:

Capital Assets, Net, at Year-End Primary Institution

	<u>6/30/2005</u>	<u>6/30/2004</u>	<u>Net Change</u>
Land and land improvements	\$ 275,775	\$ 275,775	\$ -
Buildings and improvements	11,104,969	11,633,977	(529,008)
General infrastructure	232,021	242,982	(10,961)
Machinery and equipment	588,819	671,295	(82,476)
Computers	21,985	60,533	(38,548)
Computer Software	294,305	288,370	5,935
Vehicles	6,892	6,634	258
Library books and materials	20,069	25,466	(5,397)
Total Capital Assets, Net	<u>\$ 12,544,835</u>	<u>\$ 13,205,032</u>	<u>\$ (660,197)</u>

There were no major capital asset additions for 2005. The decrease of \$660,197 in capital assets was attributable to depreciation exceeding additional purchases as well as disposal of machinery and equipment.

More detailed information regarding the College's capital assets is presented in Note 8 to the financial statements.

Debt

At year-end 2005, the College had \$285,586 in debt outstanding versus \$341,385 in the previous year. The table below summarizes these amounts by type of debt instrument.

	<u>6/30/2005</u>	<u>6/30/2004</u>	<u>Net Change</u>
Lease Obligations	\$285,586	\$341,385	(\$55,799)

More detailed information about the College's long-term liabilities is presented in Note 9 to the financial statements.

Zane State College
Management Discussion and Analysis
For the Year Ended June 30, 2005

Economic Factors that Will Affect the Future

The economic position of Zane State College is closely tied to that of the State. Because of limited economic growth and increased demand for state resources from federal mandates, the current state budget projects a reduction in the funding to the College in the next year. In response to this cutback and due to scarce public resources in general, the Board of Regents has reduced Fiscal Year 2006 State Appropriation to the College by 3% (\$200,000).

The College announced tuition and fees increases averaging 6% starting Summer Quarter 2005. The College also expects enrollment to increase by approximately 3% for a total tuition and fees increase estimated at \$600,000.

The College estimates \$150,000 increase in employee wages and benefits with an additional increase of \$120,000 for health care insurance costs in Fiscal Year 2006.

Despite the reduction in state funding and the increasing employee wages and benefits. The College's current financial plans indicate that the infusion of additional financial resources from the foregoing actions will enable it to maintain its present level of services.

Contacting the College's Financial Management

This financial report is designed to provide the Ohio Department of Education, our citizens, taxpayers, and investors and creditors with a general overview of the College's finances and to show the College's accountability for the money it received. If you have questions about this report, or need additional financial information, contact Albert Brown, Vice-President for Business Services-Treasurer, at Zane State College, 1555 Newark Road, Zanesville, Ohio 43701.

ZANE STATE COLLEGE

STATEMENT OF NET ASSETS

As of June 30, 2005

	Primary Institution	Component Unit
	Zane State College	Zane State College Foundation
<u>ASSETS</u>		
<i>Current Assets:</i>		
Cash and cash equivalents	\$ 4,852,135	\$ 217,241
Accounts receivable, net	1,612,512	-
Accounts receivable - vendors	187,466	-
Grants receivable	197,887	-
Loans	35	-
Inventory	318,713	-
Total current assets	7,168,748	217,241
<i>Noncurrent Assets:</i>		
Capital assets, net	12,544,835	-
Endowment investments	-	1,753,322
Total noncurrent assets	12,544,835	1,753,322
 TOTAL ASSETS	 \$ 19,713,583	 \$ 1,970,563
<u>LIABILITIES</u>		
<i>Current Liabilities:</i>		
Accrued wages and benefits	260,294	-
Vouchers payable	782,797	-
Capital lease payable	61,750	-
Compensated Absences Payable	41,841	-
Deposits held in custody for others	122,325	-
Deferred revenue	406,070	-
Total current liabilities	1,675,077	-
<i>Noncurrent Liabilities:</i>		
Compensated absences	356,647	-
Capital lease payable	223,836	-
Total noncurrent liabilities	580,483	-
 TOTAL LIABILITIES	 2,255,560	 -
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	12,259,249	-
Restricted:		
<i>Nonexpendable:</i>		
Scholarships	-	1,178,476
<i>Expendable:</i>		
Scholarships	-	421,284
Loans	636	-
Instructional Department uses	463,450	-
Capital projects	1,391,652	-
Unrestricted	3,343,036	370,803
Total net assets	17,458,023	1,970,563
 TOTAL LIABILITIES AND NET ASSETS	 \$ 19,713,583	 \$ 1,970,563

See accompanying notes to the basic financial statements.

ZANE STATE COLLEGE

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the Fiscal Year Ended June 30, 2005

	Primary Institution Zane State College	Component Unit Zane State College Foundation
<u>REVENUE:</u>		
<i>Operating Revenues:</i>		
Student tuition and fees (net of scholarship allowances of \$310,921)	\$ 4,977,449	\$ -
Local grants	453,565	-
Local appropriations	-	44,000
Federal grants and contracts	3,470,081	-
State grants and contracts	1,057,486	-
Private gifts and grants	20,000	-
Contributions	-	53,694
Auxiliary Enterprises:		
Bookstore	2,215,341	-
Campus security	78,420	-
Other sources	175,411	-
Total Operating Revenues	12,447,753	97,694
<u>EXPENSES:</u>		
<i>Operating Expenses:</i>		
Educational and General:		
Instructional	5,319,121	-
Academic support	977,095	-
Student services	4,746,301	-
Institutional support	2,323,328	-
Depreciation	782,273	-
Student aid	2,243	-
General & Administrative	-	67,968
Operation and maintenance of plant	906,465	-
Total Educational and General	15,056,826	67,968
Auxiliary Enterprises		
Bookstore	1,964,124	-
Other auxiliary	83,166	-
Total Operating Expenses	17,104,116	67,968
Operating Income/(Loss)	(4,656,363)	29,726
<u>NONOPERATING REVENUES (EXPENSES):</u>		
State appropriations	4,937,222	-
Investment income	93,080	85,549
Interest on Capital Asset-Related Debt	(30,295)	-
Scholarships	-	(76,549)
Net nonoperating revenues (expenses)	5,000,007	9,000
Increase in Net Assets	343,644	38,726
Net Assets, Beginning of Year	17,114,379	1,931,837
Net Assets, End of Year	\$ 17,458,023	\$ 1,970,563

See accompanying notes to the basic financial statements.

ZANE STATE COLLEGE

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2005

	Primary Institution
<u>Cash Flows from Operating Activities:</u>	
Tuition and Fees	\$ 4,859,896
Grants and Contracts	5,001,132
Payments to Suppliers	(7,863,729)
Payments to Employees for Wages and Benefits	(8,682,170)
Book Store	2,215,341
Campus Security	78,420
Other Receipts	175,411
Net Cash Used by Operating Activities	(4,215,699)
<u>Cash Flows from Non-Capital and Related Financing Activities:</u>	
State Appropriations	4,937,222
Net Cash Provided by Non-Capital and Related Financing Activities	4,937,222
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Purchases of Capital Assets	(35,349)
Principal paid on capital leases	(55,799)
Interest Paid on Leases	(30,295)
Net Cash Used by Capital and Related Financing Activities	(121,443)
<u>Cash Flows from Investing Activities:</u>	
Interest on Investments	93,080
Net Cash Provided by Investing Activities	93,080
Net Increase (Decrease) in Cash and Cash Equivalents	693,160
Cash and Cash Equivalents at Beginning of Year	4,158,975
Cash and Cash Equivalents at End of Year	\$ 4,852,135
<u>Reconciliation of Operating Loss to</u>	
<u>Net Cash Provided by (Used by) Operating Activities:</u>	
Operating Loss	(4,656,363)
Adjustments to Reconcile Operating Loss to Net Cash Provided by (Used by) Operating Activities:	
Depreciation	782,273
<u>Change in Assets and Liabilities:</u>	
Receivables, net	(197,994)
Inventories	(84,173)
Vouchers Payable	272,746
Accrued Wages and Benefits	(276,415)
Compensated Absences	24,738
Deferred Revenue	(80,411)
Loans	(100)
Net Cash Used by Operating Activities	\$ (4,215,699)

See accompanying notes to the basic financial statements.

ZANE STATE COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 – DESCRIPTION OF THE COLLEGE AND REPORTING ENTITY

On September 19, 1969, the State of Ohio Board of Regents approved the charter of the Muskingum Area Technical Institute. In 1975, the College name was changed to the Muskingum Area Technical College. In 2004, the College name was changed to Zane State College (the College). The College is a technical institute as defined by Section 3357.01 of the Ohio Revised Code and is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and the laws of the State of Ohio. A college exposes students to job training leading to employment upon graduation.

The College's official service area consists of three counties: Muskingum, Guernsey, and Noble. However, a significant number of students come from Morgan, Coshocton, and Perry counties.

In 1971 working with the Ohio Board of Regents, the Muskingum Area Technical Institute and the Ohio University began a cooperative effort to provide the community with a coordinated state-assisted higher education complex of academic-technical programs and physical facilities. Planning for a new campus was accelerated after the Ohio General Assembly, on June 12, 1972, approved a 3 million dollar appropriation for the construction of a new technical college facility. In March 1974 a master plan for the Muskingum Area Technical Institute and Ohio University-Zanesville campus was completed. This plan has guided campus development to the present time. An agreement for inter-institutional cooperation and coordination was signed on June 15, 1975, by Ohio University-Zanesville and Muskingum Area Technical Institute.

The College operates under a nine member appointed Board of Trustees, of which three are appointed by the Governor of the State of Ohio, and are responsible for the provision of public education to its student body.

The Zane State College Foundation is not a part of the primary government of the College, but due to its relationship with the College, it is discretely presented as a component unit within the College's financial statements. The Foundation is a non-profit, tax-exempt organization operated exclusively to provide support for the general educational needs of the College. Specific disclosures relating to the component unit can be found in Note 11.

The College is associated with an insurance purchasing pool, the Ohio College Association Workers' Compensation Group Rating Plan. This organization is presented in Note 14 to the financial statements.

Management believes the financial statements included in this report represent all of the funds of the College over which the College has the ability to exercise direct operating control.

A. Basis of Presentation

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Government Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – For Public Colleges and Universities*, the full scope of the College's activities is considered to be a single business-type activity (BTA) and accordingly, is reported within a single column in the basic financial statements.

ZANE STATE COLLEGE

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. Basis of Accounting

The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and 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. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the College must provide local resources to be used for a specified purpose, and expense requirements, in which the resources are provided to the College on a reimbursement basis.

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.

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 presentation on the statement of net assets, all investments with original maturities of three months or less at the time they are purchased by the College are presented on the financial statements as cash equivalents.

D. Investments

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

E. Receivables

Receivables consist of tuition and fees and charges to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from the Federal government, state and local governments, private sources in connections with reimbursements of allowable expenditures made pursuant to contracts and grants, and pledges that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.

F. Inventories

Inventories, consisting of expendable supplies and merchandise for resale, are stated at the lower of cost or market value using the first-in, first-out method.

ZANE STATE COLLEGE

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

G. Capital Assets

Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of one or more years. Library books are significant in the aggregate and are therefore also capitalized. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20 to 40 years for building and infrastructure, 5 to 10 years for equipment, 5 years for vehicles, and 5 years for library books and materials. Improvements are depreciated over the remaining useful lives of the related capital assets.

The College's policy is to capitalize net interest on the enterprise fund construction projects until substantial completion of project. The amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project and the interest earned from temporary investments of the debt proceeds over the same period. Capitalized interest is amortized on a straight-line basis over the estimated useful life of the asset. For 2005, no material interest costs were incurred on construction projects for Zane State College.

H. Noncurrent Long-Term Liabilities

Noncurrent long-term liabilities include capital lease obligations and compensated absences that will not be paid within the next fiscal year.

I. Compensated Absences

The College follows the provisions of Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences*.

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the College will compensate the employees for the benefits through paid time off or some other means. The College records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the College has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the College's termination policy. The College records a liability for accumulated unused sick leave for certified employees, administrators, and classified employees after five years of current service with the College.

J. Deferred Revenue

Deferred revenue includes amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year, related to the subsequent accounting period. The effect of not allocating the summer term between fiscal years does not have a significant impact on the financial statement presentation.

ZANE STATE COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

K. Net Assets

The College's net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt – This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets.

Restricted Net Assets – Expendable – Expendable restricted net assets include resources in which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted Net Assets – Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the College.

L. 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.

M. Revenue and Expense Recognition

The College presents its revenues and expenses as operating or nonoperating based on recognition definitions from GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust 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 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 financing 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's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

N. 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.

ZANE STATE COLLEGE

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

O. 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.

P. Use of Estimates

Management of the College has made estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. 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 additional 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 – STATE SUPPORT

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

In addition to the student subsidies, the State of Ohio provides the funding for the construction of major plant facilities on the College's campus. The funding is obtained from the issuance of special obligation bonds issued by the Ohio Public Facilities Commission (OPFC), which proceeds in turn cause the construction and subsequent lease of the facility to the Ohio Board of Regents. Upon completion of a facility, the Board of Regents turns over control to the College, which capitalizes the cost thereof.

Neither the obligation for special obligation bonds issued by OPFC, nor the annual debt service charges for principal and interest on the bonds are reflected in the College's financial statements. These costs are currently being funded through appropriations to the Board of Regents by the General Assembly.

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.

ZANE STATE COLLEGE

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 4 – STATE SUPPORT (Cont.)

- A. Construction in progress for any portion of the facilities being financed by state agencies for use by the College is not recorded on the College's books of account until such time as the facility is completed.
- B. Outstanding debt issued by OPFC is not included on the College's balance sheet. In addition, the appropriations by the General Assembly to the Board of Regents for payment of debt service are not reflected as appropriation revenue received by the College, and the related debt service payments are not recorded in the College's accounts.

NOTE 5 – DEPOSITS AND INVESTMENTS

Statement No. 3 of the Government Accounting Standards Board requires government entities to categorize deposits and investments to give an indication of the level of risk assumed by the entity at year-end. These categories of risk follow: State statutes classify monies held by the College into three categories:

	<u>Cash</u>	<u>Investments</u>
Category 1	Deposits that are either insured or collateralized with securities held by the College or by its agent in the College's name.	Investments that are insured or registered, or securities held by College or by its agent in the College's name.
Category 2	Deposits collateralized with securities held by the pledging financial institution's trust department or agent in the College's name.	Investments that are uninsured and registered, with securities held by the counterparty's trust department or agent in the College's name.
Category 3	Deposits that are uncollateralized (including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the College's name).	Investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent but not held in the College's name.
Not Categorized		Investments in mutual funds, money markets and investment management funds are not categorized because they are not evidenced by securities that exist in physical or book entry form.

At fiscal year end, the carrying amount of the College's deposits was \$4,852,135 and the bank balance was \$5,145,215. The differences represent normal reconciling items associated with timing differences and cash on hand. At June 30, 2005, \$200,000 was insured by the FDIC (Category 1); the remaining bank balances were Category 3. During fiscal year 2005, the College had no investments.

ZANE STATE COLLEGE

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 5 – DEPOSITS AND INVESTMENTS (Cont.)

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.

Deposits. The College does not have a policy for custodial credit risk. As of June 30, 2005, \$4,945,215 of the College’s bank balances was exposed to custodial credit risk as follows:

	<u>June 30, 2005</u>
Deposits collateralized with pooled securities held by the pledging financial institution’s trust department or agent not in the College’s name	\$4,945,215
	<u>\$4,945,215</u>

The classification of cash and cash equivalents, and investments on the Statement of Net Assets is based on criteria set forth in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting*.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2005 were as follows:

	<u>Gross Receivables</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
Current Receivables:			
Students	\$ 1,621,875	\$ (9,363)	\$ 1,612,512
Intergovernmental	197,887	0	197,887
Vendor	187,466	0	187,466
Total Accounts Receivable	<u>\$ 2,007,228</u>	<u>\$ (9,363)</u>	<u>\$ 1,997,865</u>

ZANE STATE COLLEGE

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 7 – DONOR RESTRICTED ENDOWMENTS

If a donor has not provided specific instructions, state law permits the Board to authorize for expenditure the new appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the Board is required to consider the College’s “long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions.” Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established. All expenditures must be approved by the Board.

At June 30, 2005, there was no net appreciation on donor-restricted assets available to be spent.

NOTE 8 – CAPITAL ASSETS

A summary of the changes in the capital assets is presented as follows:

	<u>Balance at</u> <u>7/1/2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at</u> <u>6/30/2005</u>
Capital Assets, Non-Depreciable:				
Land	\$275,775	\$0	\$0	\$275,775
Total Non-Depreciable	<u>275,775</u>	<u>0</u>	<u>0</u>	<u>275,775</u>
Capital Assets, Depreciable:				
Buildings	18,065,565	0	0	18,065,565
General Infrastructure	274,040	0	0	274,040
Machinery and Equipment	1,237,178	45,555	0	1,282,733
Computers	964,755	0	(328,920)	635,835
Computer Software	370,835	59,428	0	430,263
Motor Vehicles	83,040	5,950	0	88,990
Library books	479,334	11,143	0	490,477
Total Depreciable	<u>21,474,747</u>	<u>122,076</u>	<u>(328,920)</u>	<u>21,267,903</u>
Less Accumulated Depreciation:				
Buildings	(6,431,588)	(529,008)	0	(6,960,596)
General Infrastructure	(31,058)	(10,961)	0	(42,019)
Machinery and Equipment	(599,814)	(128,031)	0	(727,845)
Computers	(941,654)	(38,548)	328,920	(651,282)
Computer Software	(9,198)	(53,493)	0	(62,691)
Motor Vehicles	(78,310)	(5,692)	0	(84,002)
Library books	(453,868)	(16,540)	0	(470,408)
Total Depreciation	<u>(8,545,490)</u>	<u>(782,273)</u>	<u>328,920</u>	<u>(8,998,843)</u>
Total Capital Assets, Depreciable, net	<u>12,929,257</u>	<u>(660,197)</u>	<u>0</u>	<u>12,269,060</u>
Capital Assets, net	<u>\$13,205,032</u>	<u>(\$660,197)</u>	<u>\$0</u>	<u>\$12,544,835</u>

ZANE STATE COLLEGE

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 9 – LONG-TERM LIABILITIES

A summary of changes in long-term liabilities is as follows:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2005</u>	<u>Current</u> <u>Portion</u>
Compensated Absences	\$ 373,750	\$ 398,488	\$ (373,750)	\$ 398,488	\$ 41,841
Lease Obligations	<u>341,385</u>	<u>0</u>	<u>(55,799)</u>	<u>285,586</u>	<u>61,750</u>
Long-Term Liabilities	<u>\$ 715,135</u>	<u>\$ 398,488</u>	<u>\$ (429,549)</u>	<u>\$ 684,074</u>	<u>\$ 103,591</u>

NOTE 10 – CAPITAL LEASES

The College leases copiers under capital leases. Capital leases are capitalized as capital assets, net, with a corresponding liability.

The following is a schedule of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2005:

<u>Year Ending December 31,</u>	
2006	86,094
2007	86,094
2008	86,094
2009	<u>86,094</u>
Minimum lease payments	344,376
Less: Amount representing interest at the College's incremental borrowing rate of interest	<u>(58,790)</u>
Present value of minimum lease payments	<u>\$ 285,586</u>

NOTE 11 – COMPONENT UNIT DISCLOSURES - ZANE STATE COLLEGE FOUNDATION

Description of the Foundation

The Zane State College Foundation (hereinafter "the Foundation") is a nonprofit organization as determined by Section 501(c)(3) of the Internal Revenue Code, further, the Foundation is organized under Section 509(a)(1) and 170(b)(1)(a)(iv) of the Internal Revenue Code.

The Foundation is organized and shall be operated exclusively for directorial, scientific or charitable purposes by conducting or supporting activities which benefit, or carry out the purpose of Zane State College, a state institution of higher learning, authorized under Chapter 3357 of the Ohio Revised Code including, but not limited to the creation of an endowment fund for annual scholarships in each technology program, the improvement of technical laboratory equipment, and opportunities for the professional development of college employees.

ZANE STATE COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 11 – COMPONENT UNIT DISCLOSURES - ZANE STATE COLLEGE FOUNDATION (Cont.)

Solely for the above purpose, the Foundation is empowered to exercise all rights and powers conferred by the laws of the State of Ohio upon nonprofit corporations, including, but not limited to:

- A. To accept, acquire, receive, take, and hold by bequest, devise, grant, gift, purchase, exchange, lease, transfer, judicial order or decree, or otherwise, for any of its objects and purposes, any property, both real and personal, whatever kind, nature or description and wherever situated;
- B. To seal, exchange, convey, mortgage, lease, transfer, or otherwise dispose of any such property, both real and personal, as the objects and purposes of the Foundation may require, subject to such limitations as may be prescribed by law;
- C. To invest and reinvest its funds in such savings account, stock, bonds, debentures, mortgages, or in such other securities, investments, and property as the Board of Directors shall deem advisable, subject to the limitations and conditions contained in any bequest, devise, grant, or gift, provided such limitations and conditions are not in conflict with those provisions of the Internal Revenue Code and its regulations dealing with organizations exempt from taxation under Section 501(c)(3), as such provisions now exist or as they may hereafter be amended.

Financial Statement Presentation

The accompanying financial statements have been prepared on the accrual basis whereby all revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay.

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Government Accounting Standards Board (GASB), including Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, issued in June and November 1999. Since the Foundation is a component unit of the College, it is required to apply these Statements the same as the College.

Summary of Significant Accounting Policies

Net Asset Classifications

In the accompanying financial statements, assets with similar characteristics have been combined in the following net asset groups:

Unrestricted Assets – These assets are used for continuing activities, scholarships, and operations of the Foundation at the discretion of the Foundation’s governing body.

Restricted: Expendable – Temporarily Restricted Assets – A donor imposed restriction that permits the Foundation to expend the donated assets as specified by the donor. The restriction remains in effect until satisfied by either the passage of time or by actions of the Foundation. The Foundation’s expenditures of temporarily restricted assets are restricted to scholarships and faculty activities.

Restricted: Non-Expendable – Permanently Restricted Assets – A donor imposed restriction that stipulates that resources be maintained permanently but permits the Foundation to expend part or all of the income or other economic benefit derived from the donated asset. The Foundation’s income derived from these resources is restricted to expenditures on scholarships.

ZANE STATE COLLEGE

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 11 – COMPONENT UNIT DISCLOSURES - ZANE STATE COLLEGE FOUNDATION (Cont.)

Income Tax Status

The Foundation has been granted an exemption from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Cash and Investments

The following information classified deposits and investments by categories of risk as defined in GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*.

	<u>Cash</u>	<u>Investments</u>
Category 1	Deposits that are either insured or collateralized with securities held by the College or by its agent in the College's name.	Investments that are insured or registered, or securities held by College or by its agent in the College's name.
Category 2	Deposits collateralized with securities held by the pledging financial institution's trust department or agent in the College's name.	Investments that are uninsured and registered, with securities held by the counterparty's trust department or agent in the College's name.
Category 3	Deposits that are uncollateralized (including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the College's name).	Investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent but not held in the College's name.
Not Categorized		Investments in mutual funds, money markets and investment management funds are not categorized because they are not evidenced by securities that exist in physical or book entry form.

At June 30, 2005, the carrying amount of the Foundation's deposits was \$217,241 and the bank balance of the Foundation's deposits was \$220,014. The differences represent normal reconciling items associated with timing differences. At June 30, 2005, \$109,539 was covered by Federal Deposit Insurance (Category 1). The remainder was Category 3.

ZANE STATE COLLEGE

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 11 – COMPONENT UNIT DISCLOSURES - ZANE STATE COLLEGE FOUNDATION (Cont.)

The following summarized the market value of investments at June 30, 2005:

<u>Investment Type</u>	<u>Market Value</u>	<u>Less than 1</u>	<u>1-2</u>	<u>3-5</u>
Common Stock	\$ 458,139	\$ 458,139	N/A	N/A
Federated US Govt Securities	\$ 542,242	\$ 542,242	N/A	N/A
Citi Group Bonds	\$ 100,296	\$ 100,296	N/A	N/A
General Motors Acceptance Corp.	\$ 46,871	\$ 46,871	N/A	N/A
Salomon Smith Barney Bonds	\$ 50,682	\$ 50,682	N/A	N/A
FHLM Bonds	\$ 445,066	N/A	\$ 197,207	\$ 247,859
FNMA Bonds	\$ 48,766	N/A	\$ 48,766	N/A
Money Markets	\$ 61,260	\$ 61,260	N/A	N/A
	<u>\$ 1,753,322</u>	<u>\$ 1,259,490</u>	<u>\$ 245,973</u>	<u>\$ 247,859</u>

Interest Rate Risk- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Foundation’s investment policy provides for management of the portfolio to minimize principal fluctuations with a long-term investment mix and with an initial target of 40% of its assets to be invested in Equities, 55% in Fixed Income and 5% in Cash Equivalents.

Credit Risk- Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The Foundation’s investment policy limits investments to the following categories: Equities, Fixed Income and Cash Equivalents. The benchmark for the domestic equity portion of the portfolio will be the S&P 500 Equity Index. The fixed income portfolio should have an average credit quality of “A”. Cash equivalents, if not guaranteed by the U.S. Government, should be the equivalent of A-2 by Standard and Poors or P-2 by Moody’s. Standard and Poor’s rated the FHLM, FNMA and Salomon Smith Barney bonds all AAA; Citi Group bonds were rated AA and General Motors Acceptance Corp. bonds rated BB. The money market funds were unrated.

Concentration of credit risk- Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in one single issuer.

The Foundation’s investment policy calls for initial targets of asset categories along with acceptable ranges in order to balance the risks as follows: an initial target of 40% of its assets to be invested in Equities, 55% in Fixed Income and 5% in Cash Equivalents. It is the intent of the Foundation that as a general practice, the investment should remain in a range of +/- 10% of the target benchmarks.

Diversification. The equity portion will be diversified in terms of sector, industry, and company. No single equity position shall represent more than 10% of the equity investment fund. The fixed income portion should be properly diversified in terms of issuer, maturities/duration, and yield curve exposure. The fixed income portfolio may be invested in U.S. Government and agency obligations, marketable corporate bonds, mortgage-backed or asset-backed securities. The fixed income portfolio may include non-investment grade securities, with total exposure not to exceed 10% of the portfolio.

More than 5 percent of the Foundation’s investments are in Federated US Govt Securities, FHLM Bonds, common stocks and Citi Group bonds.

ZANE STATE COLLEGE

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 12 – COMPONENT UNIT DISCLOSURES - ZANE STATE COLLEGE FOUNDATION (Cont.)

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.

As of June 30, 2005, \$110,475 of the Foundation's bank balances was exposed to custodial credit risk as follows:

	<u>June 30, 2005</u>
Deposits collateralized with pooled securities held by the pledging financial institution's trust department or agent not in the Foundation's name	<u>\$110,475</u>
	<u>\$110,475</u>

The Foundation's policy does not address custodial credit risk. All of the Foundation's investments are held in the name of the Foundation.

Donated Facilities/Operating Expenses

The Foundation occupies office space at Zane State College located at 1555 Newark Road, Zanesville, Ohio. No rent is paid by the Foundation. Zane State College pays operating expenses for the Foundation. The value of the operating expenses paid by the College was \$44,000. This amount has been recorded in the financial statements as a contribution to and an expense from unrestricted net assets.

Net Assets Released from Restrictions

Net assets were released from donor restrictions in fiscal year 2005 by incurring expenses satisfying the restricted purpose or by the occurrence of other events specified by donors. The Foundation distributed \$34,625 in scholarships that related to the satisfaction of these donor restrictions.

NOTE 12 – PENSION AND RETIREMENT PLANS

The employees of Zane State College are covered by the School Employees Retirement System of Ohio (SERS), the State Teachers Retirement System of Ohio (STRS) or an Alternative Retirement Plan (ARP). The State of Ohio accounts for the activities of the SERS and STRS systems and amounts of these funds are not reflected in the accompanying financial statements.

School Employees Retirement System

The College contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides basic 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 SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling 614-222-5853.

Plan members are required to contribute 9% of their annual covered salary and the College is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. The contribution requirements of the plan members and employers are established and may be amended, up to statutory maximum amounts, by SERS's Retirement Board. The College's required contributions for the fiscal years ended June 30, 2005, 2004 and 2003 were \$280,163, \$201,622 and \$281,165, respectively. 100% has been contributed for fiscal years 2005, 2004 and 2003.

ZANE STATE COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 12 – PENSION AND RETIREMENT PLANS (Cont.)

State Teachers Retirement System

The College contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. State Teachers Retirement System of Ohio (STRS Ohio) 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 reimbursements 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. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS 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 State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

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 controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

New members have a choice of three retirement plan options. 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 percent 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 in to the DC plan and the Combined Plan 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.

The DB Plan Benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 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 salary years. 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) until 100% of final average salary 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 Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

The DC Plane 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 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 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 designed beneficiary is entitled to receive the member's account balance.

ZANE STATE COLLEGE

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 12 – PENSION AND RETIREMENT PLANS (Cont.)

State Teachers Retirement System (Cont.)

Member contributions for the Combined Plan Benefits 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.

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

A retiree of STRS Ohio or another 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 or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount.

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 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. 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 up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10% of their annual covered salaries. The College was required to contribute 14%. Of the College's contribution, 13% was the portion used to fund pension obligations for 2003. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. College's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$498,301, \$488,115 and \$472,527, respectively; 100 percent has been contributed for fiscal years 2005, 2004 and 2003.

Alternative Retirement Plan

The College offers a defined contribution plan as an alternative to participation with State mandated defined benefit plans in accordance with state law. Non-elective employee contributions and employer contributions are made to the plan in amounts equivalent to the participant's compensation which would have otherwise been contributed to the State Retirement System that applies to the participant's position. There was one participant in the program. Contributions to the plan for fiscal year ended June 30, 2005 was \$9,877.

ZANE STATE COLLEGE

NOTES TO THE FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 13 – POST-EMPLOYMENT BENEFITS

The College provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS) and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physician's fees, prescription drugs and 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 Retirement Board currently allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For the fiscal year ended June 30, 2004, and June 30, 2003, the board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion on June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000. There were 111,853 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their premium for health care. 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 lines. 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, 2004, the healthcare is 4.91%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% 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 at \$25,400. For the College, the amount contributed to fund health care benefits, including surcharge, during the 2005 fiscal year equaled \$98,259.

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. The target health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004, were \$223,443,85, and the target level was \$335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits were \$300.8 million. The number of participants currently receiving health care benefits is approximately 62,000.

NOTE 14 – RISK MANAGEMENT

A. Property and Liability

The College is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the College contracted with the Young Insurance Agency for liability, property and vehicle insurance.

ZANE STATE COLLEGE

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

NOTE 14 – RISK MANAGEMENT (Cont.)

A. Property and Liability (Cont.)

Coverage provided is as follows:

Umbrella Liability	\$ 4,000,000 limit
Building and Contents - replacement cost (\$10,000 deductible)	27,652,210 limit
Inland Marine Watercraft (\$500 deductible)	10,141 limit
Inland Marine Contractor Equipment (\$1,000 deductible)	65,161 limit
Inland Marine EDP coverage Main (\$2,500 deductible)	500,000 limit
Inland Marine EDP Coverage WPTC (\$2,500 deductible)	25,000 limit
Boiler and Machinery (\$1,000 deductible)	27,652,210 limit
Theft, Disappearance and Destruction Insurance (\$1,000 deductible)	100,000 limit inside and outside premises
Employee Dishonesty Insurance (\$1,000 deductible)	50,000 limit each employee
WPTC Cashiers (2), WPTC Director, Foundation Cashier	22,500 limit each employee
Automobile Liability - Bodily Injury and Property Damage 1,000,000 each accident	
General Liability Insurance	1,000,000 each occurrence 2,000,000 aggregate
Director & Officer Liability Insurance	1,000,000 limit

Settled claims have not exceeded this commercial coverage in any of the past three years. There have been no significant reductions in insurance coverage from last year.

B. Workers' Compensation

For fiscal year 2005, the College participated in the Ohio College Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the College by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating Colleges is calculated as one experience and a common premium rate is applied to all Colleges in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to Colleges that can meet the GRP's selection criteria. The firm of Comp Management provides administrative, cost control and actuarial services to the GRP.

NOTE 15 – CONTINGENCIES

A. Grants

The College received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Current Unrestricted Educational and General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the College at June 30, 2005.

B. Litigation

The College is not currently party to any legal proceedings.

Zane State College
Muskingum County, Ohio
Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2005

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
United States Department of Labor				
<i>Direct from the Federal Agency:</i>				
Employment and Training Administration Pilots, Demonstrations and Research Projects	N/A	17.261	135,644	75,037
Total United States Department of Labor			<u>135,644</u>	<u>75,037</u>
United States Department of Education				
<i>Direct from the Federal Agency:</i>				
Higher Education_Institutional Aid	N/A	84.031	325,000	454,071
<i>Student Financial Aid Cluster:</i>				
Federal Family Education Loans (Guaranteed Student Loans)	N/A	84.032	2,968,229	2,968,229
Federal Work-Study Program	N/A	84.033	99,452	113,057
Federal Pell Grant Program	N/A	84.063	2,759,100	2,759,100
<i>Total Student Financial Aid Cluster</i>			<u>5,826,781</u>	<u>5,840,386</u>
<i>Passed through the Ohio Department of Education</i>				
Vocational Education: Basic Grants to States	20-C3	84.048	119,926	66,262
Tech-Prep Education	3ETC	84.243	149,904	120,741
Total passed through the Ohio Department of Education			<u>269,830</u>	<u>187,003</u>
Total United States Department of Education			<u>\$6,421,611</u>	<u>\$6,481,460</u>
Total Federal Financial Assistance			<u><u>\$6,557,255</u></u>	<u><u>\$6,556,497</u></u>

NA - Not applicable, Direct Grant

See accompanying Notes to the Schedule of Federal Awards Expenditures.

ZANE STATE COLLEGE

NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES

FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant transactions of Zane State College (the College) recorded on the cash 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 – FEDERAL FAMILY EDUCATION LOAN PROGRAM

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 only reflects the fiscal year amount that has been certified by the College.

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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
Zane State College
Muskingum County
1555 Newark Road
Zanesville, Ohio 43701-2626

We have audited the financial statements of Zane 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 November 30, 2005 where 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 opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we reported to the management of the College in a separate letter dated November 30, 2005.

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



Balestra, Harr & Scherer, CPAs, Inc.
November 30, 2005

BALESTRA, HARR & SCHERER, CPAs, INC.

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

Board of Trustees
Zane State College
Muskingum County
1555 Newark Road
Zanesville, Ohio 43701-2626

Compliance

We have audited the compliance of Zane 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 its major federal program for the year ended June 30, 2005. Zane State College's major federal program is 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 its major federal program is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

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

In our opinion, Zane State College complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005. However, we noted certain matters that we reported to management of the College in a separate letter dated November 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
Zane State College

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

Page 2

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

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



Balestra, Harr & Scherer, CPAs, Inc.
November 30, 2005

ZANE 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: Federal Family Education Loan Program CFDA #84.032, Federal Work- Study Program CFDA# 84.033, PELL Grant Program CFDA# 84.063
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee ?	Yes

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

**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	



**Auditor of State
Betty Montgomery**

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ZANE STATE COLLEGE

MUSKINGUM 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 17, 2006**