

Cincinnati State Technical and Community College

**Financial Report
with Required Supplemental Information
June 30, 2017**



Dave Yost • Auditor of State

Board of Trustees
Cincinnati State Technical and Community College
3520 Central Parkway
Cincinnati, Ohio 45223

We have reviewed the *Independent Auditor's Report* of the Cincinnati State Technical and Community College, Hamilton County, prepared by Plante & Moran, PLLC, for the audit period July 1, 2016 through June 30, 2017. 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 Cincinnati State Technical and Community College is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

October 25, 2017

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Cincinnati State Technical and Community College

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Independent Auditor's Report

To the Board of Trustees
Cincinnati State Technical and Community College

Report on the Financial Statements

We have audited the accompanying basic financial statements of Cincinnati State Technical and Community College (the "College") and its discretely presented component unit as of and for the years ended June 30, 2017 and 2016 and the related notes to the financial statements, which collectively comprise the College's financial statements as listed in the table of contents. These financial statements are reported as a component unit of the State of Ohio.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Cincinnati State Technical and Community College as of June 30, 2017 and 2016 and the respective changes in its financial position and, where applicable, its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Trustees
Cincinnati State Technical and Community College

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the College's proportionate share of the net pension liability, and the schedule of the College's contributions, as indicated on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"), and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2017 on our consideration of Cincinnati State Technical and Community College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* in considering the College's internal control over financial reporting and compliance.

Plante & Morse, PLLC

October 10, 2017

Cincinnati State Technical and Community College

Management's Discussion and Analysis (unaudited)

Introduction

Our discussion and analysis of Cincinnati State Technical and Community College's (the "College") financial performance provides an overview of the College's financial activities for the year ended June 30, 2017, with selected comparative information for the years ended June 30, 2016 and 2015. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto which follow this section.

The College is a public, two-year community college operating under the authority of the Ohio Department of Education. Governed by a nine-member board of trustees appointed by the governor, the College offers over 70 associate degree programs and majors and numerous certificate programs. In addition to pre-baccalaureate and technical programs, the College provides many continuing education opportunities through flexibly scheduled courses, seminars, and on-site training for area businesses and industries and has one of the largest co-op education programs in the country. The College is fully accredited by the Higher Learning Commission and holds numerous programmatic accreditations.

The College is currently participating in the Academic Quality Improvement Program (AQIP), a North Central Association of Colleges and Schools (NCA) program based on the Malcolm Baldrige National Award principles for organizational quality management. Many faculty and staff participate in the Continuous Quality Improvement Network (CQIN), a national organization that benchmarks best practices in higher education. Partnerships with the American Quality and Productivity Center, the American Society for Quality, and the Association for Quality provide many training opportunities and other resources.

The College serves four Ohio counties in the metropolitan Cincinnati area and counties in Northern Kentucky and Eastern Indiana. Educational programs and services are delivered at the main Clifton campus, Middletown campus, and three extension sites - Harrison, Evendale, and Warren County - as well as several regional sites located in schools, nonprofit agencies, and organizations. Distance learning courses enroll students from both outside and within the geographic region. At the College, access means geographic convenience, affordability, and resources to allow students to matriculate successfully.

Using the Financial Statements

The College's financial report consists of three financial statements: the statement of net position; the statement of revenue, expenses, and changes in net position; and the statement of cash flows. These statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles. The College has adopted GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, as amended by additional GASB statements. These statements establish standards for external financial reporting for public colleges and universities and require that financial statements focus on the College as a whole, with resources classified for accounting and reporting purposes into three net position categories.

Under the provision of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, Cincinnati State Technical and Community College Foundation (the "Foundation") has been determined to be a component unit of the College. Accordingly, the Foundation will be discretely presented in the College's financial statements. The discretely presented component unit has been excluded from the management's discussion and analysis.

Cincinnati State Technical and Community College

Management's Discussion and Analysis (unaudited) (Continued)

During fiscal year 2015, the College implemented GASB Statement No. 68, *Accounting and Reporting for Pensions*, an amendment to GASB Statement No. 27, and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The College is now recognizing its unfunded pension benefit obligation as a liability on the statement of net position. The statements also enhance accountability and transparency through revised note disclosures and required supplemental information.

Statement of Net Position

The statement of net position presents the financial position of the College at the end of the fiscal year. Net position represents the difference between total assets and deferred outflows and total liabilities and deferred inflows. Net position indicates the overall financial condition of the College, while the change in net position is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation. A summarized comparison of the College's assets and deferred outflows, liabilities and deferred inflows, and net position at June 30 follows (*in thousands*):

Statement of Net Position

	2017	2016	2015
Assets and Deferred Outflows			
Cash, cash equivalents, and investments	\$17,069	\$19,669	\$20,854
Accounts receivable - Net	11,951	11,883	12,420
Other assets	312	709	1,303
Capital assets - Net	81,132	84,780	87,356
Total assets	110,464	117,041	121,933
Deferred outflows	21,051	10,502	8,083
Total assets and deferred outflows	\$131,515	\$127,543	\$130,016
Liabilities and Deferred Inflows			
Accounts payable and accrued expenses	\$10,670	\$13,664	\$12,075
Deferred revenue	3,885	4,168	4,569
Long-term liabilities	141,220	132,940	130,464
Total liabilities	155,775	150,772	147,108
Deferred inflows	11,170	11,042	16,016
Total liabilities and deferred inflows	166,945	161,814	163,124
Net Position			
Net investment in capital assets	45,118	45,876	46,119
Restricted	1,019	1,154	1,316
Unrestricted	(81,567)	(81,301)	(80,543)
Total net position	(35,430)	(34,271)	(33,108)
Total liabilities, deferred inflows, and net position	\$131,515	\$127,543	\$130,016

Cincinnati State Technical and Community College

Management's Discussion and Analysis (unaudited) (Continued)

Assets

Cash and cash equivalents, restricted cash, and investments make up 13.0 percent, 15.4 percent, and 16.0 percent of total assets and deferred outflows at June 30, 2017, 2016, and 2015, respectively. Cash and cash equivalents, restricted cash, and investments include bank deposits, cash on hand, U.S. government agency securities, and Treasury notes. Cash and cash equivalents, restricted cash, and investments were down \$2.6 million at June 30, 2017 from June 30, 2016. This was primarily due to a \$3.0 million federal financial aid cash payment received at June 30, 2016 that was not applied against student accounts receivable until the following month in the next fiscal year.

Accounts receivable make up 9.1 percent, 9.3 percent, and 9.6 percent of the total assets and deferred outflows at June 30, 2017, 2016, and 2015, respectively. The slight net increase in accounts receivable in fiscal year 2017 was attributable primarily to the increase in student accounts receivable and the increase of the allowance for doubtful accounts. The decrease in accounts receivable in fiscal year 2015 was attributable primarily to the reduced activity of the federal training grants and pay-down of the Higher Education Partners (HEP) collaboration agreement and related leases. Accounts receivable at June 30 include *(in thousands)*:

	2017	2016	2015
Grants	\$826	\$1,023	\$1,296
State appropriations	0	11	12
Tuition and other	15,817	14,485	13,510
Collaboration agreement	493	493	380
Collaboration leases	1,086	1,214	1,138
Allowance for doubtful accounts	(6,271)	(5,343)	(3,916)
Total	<u>\$11,951</u>	<u>\$ 11,883</u>	<u>\$12,420</u>

Capital assets, net of depreciation, make up 61.7 percent, 66.5 percent, and 67.2 percent of the total assets and deferred outflows at June 30, 2017, 2016, and 2015, respectively. The decrease in the capital assets percentage in fiscal year 2017 is due primarily to depreciation of the capital assets. The decrease in the capital assets percentage in fiscal year 2015 is due primarily to the decrease in cash and cash equivalents. Other assets include prepaid expenses, bond escrow payments, and cafeteria, restaurant, and other College inventories.

Cincinnati State Technical and Community College

Management's Discussion and Analysis (unaudited) (Continued)

Liabilities

The \$5.1 million increase in total liabilities and deferred inflows was primarily due to the increase of net pension liability (pension activity) related to the implementation of GASB Statement No. 68. Liabilities of \$10.7 million consist of accounts payable and accrued expenses primarily for wages, benefits, supplies, and utilities and \$3.8 million of unearned revenue for summer classes, which is recognized proportionally between fiscal years of when the semester occurs. As discussed in more detail in the debt section, on February 23, 2012, the College issued \$38,775,000 in General Receipts Refunding Bonds, Series 2012 with an average effective interest rate of 3.33 percent to advance refund \$36,815,000 of the outstanding Series 2002 bonds. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$2.4 million. This difference, reported as a deferred outflow on the statement of net position, is being charged to operations through the year 2029 using the effective-interest method. The College completed the advance refunding to reduce its total debt service payments over the next 16 years by \$6.1 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$5.0 million. The 2012 General Receipts Bonds have an underlying rating of A2 based on Moody's Investors Service. During the year ended June 30, 2013, the College entered into capitalized leases in the amount of \$4.8 million. These leases are for equipment and improvement to the College. A portion of these leases was for equipment and improvements leased as part of the collaboration agreement.

Net Position

In fiscal year 2017, total net position decreased \$1.2 million. The decrease of \$1.2 million was due to operations combined with a greater than projected reduction of tuition and fees as a result of declining enrollment. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by outstanding liabilities and debt attributable to the acquisition or construction of those assets. Restricted net position is subject to externally imposed stipulations that they either be maintained permanently (unexpendable) or that they can be fulfilled by actions of the College pursuant to those stipulations (expendable). All of the College's restricted net position is expendable and includes reserves for debt service and deferred maintenance. Unrestricted net position is not subject to externally imposed stipulations and may be designated for specific purposes by action of management or the board of trustees. Substantially all unrestricted net position is allocated for academic programs, general operations, deferred maintenance, and initiatives.

Statement of Revenue, Expenses, and Changes in Net Position

The statement of revenue, expenses, and changes in net position presents both the operating results and the nonoperating revenue and expenses of the College. State appropriations, while budgeted for operations, are considered nonoperating revenue.

Cincinnati State Technical and Community College

Management's Discussion and Analysis (unaudited) (Continued)

A summarized comparison for the years ended June 30 follows *(in thousands)*:

Statement of Revenue, Expenses, and Changes in Net Position

	2017	2016	2015
Revenue			
Tuition and fees - Net	\$22,753	\$25,181	\$26,125
Grants and contracts	15,424	17,134	22,324
Sales and services	2,302	1,850	1,784
Auxiliary services	3,150	3,370	3,559
Other operating revenue and gifts	1,316	1,966	3,085
State instructional appropriations	30,516	30,306	29,445
State capital appropriations	2,121	483	707
Total revenue	<u>77,582</u>	<u>80,290</u>	<u>87,029</u>
Expenses			
Instruction	29,308	29,720	31,815
Public support	3,980	4,224	6,520
Academic support	6,412	6,519	6,927
Student services	7,358	8,101	8,152
Institutional support	16,275	16,364	17,814
Operations and maintenance of plant	5,580	6,173	6,684
Depreciation	4,236	4,337	4,269
Scholarships	1,033	924	850
Auxiliary services	3,351	3,734	4,012
Interest on capital asset related debt	1,208	1,357	1,797
Total expenses	<u>78,741</u>	<u>81,453</u>	<u>88,840</u>
Decrease in net position	(1,159)	(1,163)	(1,811)
Net position - Beginning of year	(34,271)	(33,108)	69,391
Adjustment for change in accounting principle	-	-	(100,688)
Net position - End of year	<u><u>\$(35,430)</u></u>	<u><u>\$(34,271)</u></u>	<u><u>\$(33,108)</u></u>

Revenue

Revenue for fiscal year 2017 decreased by \$2.7 million or 3.4 percent over fiscal year 2016. The change derives primarily from the following three functional categories of revenue:

1. Student tuition and fees are reported net of scholarship allowance. Net instructional revenue for fiscal year 2017 decreased by \$2.4 million, or 9.6 percent, from fiscal year 2016 due to student enrollment declines. Financial aid in the form of Pell grants and scholarships decreased by \$498,000 or 4.9 percent in 2017, also attributable to declining student enrollment.
2. Grants and contracts decreased by \$1.7 million, or 9.9 percent, compared to fiscal year 2016. The major portion of this decrease is related to two US Department of Labor Grants (TAACCCT grants). One of which expired \$700,000 and the reduced activity of another of \$400,000. The balance of \$600,000 was related to the reduction in other various grants at the college.

Cincinnati State Technical and Community College

Management's Discussion and Analysis (unaudited) (Continued)

3. State capital appropriations increased by \$1.6 million, or 339.1 percent, compared to fiscal year 2016, largely as a result of the timing in doing state capital project from year to year.

Revenue for fiscal year 2016 decreased by \$6.7 million or 7.7 percent over fiscal year 2015. The change derives primarily from the following three functional categories of revenue:

1. Student tuition and fees are reported net of scholarship allowance. Net instructional revenue for fiscal year 2016 decreased by \$944,000, or 3.6 percent, from fiscal year 2015 due to student enrollment declines. Financial aid in the form of Pell grants and scholarships decreased by \$3.4 million or 25.0 percent in 2016, also attributable to declining student enrollment. The combined effect of reduced financial aid in the form of grants along with lower instructional revenue resulted in a net decrease in gross tuition and fees of \$4.4 million or 11.0 percent in fiscal year 2016.
2. Grants and contracts decreased by \$5.2 million, or 23.2 percent, compared to fiscal year 2015. Of this decrease, \$3.4 million was a result of a reduction in Pell funding due to declining student enrollment and more proactive financial aid counseling. The other \$1.8 million decrease was due to reduced activity from the final year of the U.S. Department of Labor Health Professions Pathway (H2P) Trade Adjustment Assistance Community College and Career Training (TAACCCT) grant in the amount of \$1.08 million and increased activity in other federal/local grants in the amount of \$872,000.
3. Other operating revenue and gifts decreased by \$1.1 million, or 36.3 percent, compared to fiscal year 2015, largely as a result of the one-time recognition gain in Anthem stock fiscal year 2015 in the amount of \$623,500, a decrease of \$158,700 due to one-time Anthem stock dividends in the prior year, and a decrease in indirect costs reimbursement from TAAACT grants in the amount of \$342,700.

Expenses

Expenses for fiscal year 2017 decreased by \$2.7 million, or 3.3 percent, over fiscal year 2016. The change derives primarily from the following four functional categories of expense:

1. Instructional expenses decreased by \$412,000, or 1.4 percent, over fiscal year 2016. This was the result of decreased spending for tenure track and adjunct faculty instructors in the amount of \$393,000 due to reduced course section offerings, and decreased in restricted grant fund support expenses in the amount of \$19,000.
2. Student services expenses decreased by \$743,000 or 9.2 percent, over fiscal year 2016, due to reduction of student services personnel and support costs of \$517,000 in the General Fund and \$226,000 in student support restricted federal and state grants.
3. Operations and maintenance of plant expenses decreased by \$593,000, or 9.6 percent, over fiscal year 2017 due to reductions in personnel and operating expenses, including restructuring of maintenance agreements.
4. Auxiliary services expenses decreased \$383,000, or 10.3 percent, over fiscal year 2016 due to lower enrollment and improved management and cost reductions.

Cincinnati State Technical and Community College

Management's Discussion and Analysis (unaudited) (Continued)

Expenses for fiscal year 2016 decreased by \$7.4 million, or 8.3 percent, over fiscal year 2015. The change derives primarily from the following four functional categories of expense:

1. Instructional expenses decreased by \$2.1 million, or 6.6 percent, over fiscal year 2015. This was the result of decreased spending for tenure track and adjunct faculty instructors in the amount of \$1.17 million due to reduced course section offerings, and decreased instructional support expenses in the amount of \$903,000.
2. Public support expenses decreased by \$2.3 million, or 35.2 percent, over fiscal year 2015, due to decreased activity in the H2P TAACCCT Grant in the amount of \$2.9 million offset in part by increased activity in other federal, state, and local grants.
3. Institutional support expenses decreased by \$1.5 million, or 8.1 percent, over fiscal year 2015 due to reductions in administrative/staff personnel and support expenses; sick and vacation leave accrual; accounts receivable write-off; computer lease and software expenses; and marketing and travel.
4. Operations and maintenance of plant expenses decreased \$511,000 over fiscal year 2015 due to lower maintenance and repair expense in the amount of \$274,000, and reduced personnel expense in the amount of \$233,000.

Statement of Cash Flows

The statement of cash flows provides additional information about the College's financial results by reporting the major sources and uses of cash. A comparative summary of the statement of cash flows for the years ended June 30 follows (*in thousands*):

Statement of Cash Flows

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Net cash used in operating activities	\$(39,999)	\$(36,850)	\$(41,269)
Net cash provided by non-capital financing activities	40,089	40,378	42,869
Net cash used in capital and related financial activities	(2,797)	(5,052)	(7,504)
Net cash provided by investing activities	865	3,336	6,332
Net (decrease) increase in cash and cash equivalents	(1,842)	1,812	428
Cash and cash equivalents - Beginning of year	6,814	5,002	4,574
Cash and cash equivalents - End of year	<u>\$4,972</u>	<u>\$6,814</u>	<u>\$5,002</u>

The primary cash receipts from operating activities consist of tuition and fee revenue. Cash outlays for operating activities include payments of wages, benefits, supplies, utilities, and scholarships.

Cincinnati State Technical and Community College

Management's Discussion and Analysis (unaudited) (Continued)

Capital Assets

Capital assets, net of accumulated depreciation, totaled \$81.1 million, \$84.8 million, and \$87.4 million at June 30, 2017, 2016, and 2015, respectively, a decrease of \$3.7 million and an increase of \$2.6 million in fiscal years 2017 and 2016, respectively. Changes in capital assets during fiscal years 2017, 2016, and 2015 included (in millions):

Capital Assets

	Balance June 30, 2015	Net Additions / Reductions	Balance June 30, 2016	Net Additions / Reductions	Balance June 30, 2017
Land	\$2.3	\$0.0	\$2.3	\$0.0	\$2.3
Land improvements	2.3	0.0	2.3	0.4	2.7
Building and improvements	132.3	1.1	133.4	0.0	133.4
Equipment and library collections	7.8	0.2	8.0	0.2	8.2
Library	1.3	(0.1)	1.2	0.0	1.2
Construction in progress	0.0	0.1	0.1	(0.1)	0.0
Accumulated depreciation	(58.6)	(3.9)	(62.5)	(4.2)	(66.7)
Total	\$87.4	\$(2.6)	\$84.8	\$(3.7)	\$81.1

Debt Administration

The College entered into capitalized leases in the amount of \$296,000, \$927,000, and \$268,000 during the years ended June 30, 2017, 2016, and 2015, respectively. These leases are for equipment and improvements to the College. A portion of these leases was for equipment and improvements leased as part of the collaboration agreement.

Economic Impact on Future Operations

To bolster the Ohio economy, the governor has placed higher education at the top of Ohio's priorities, emphasizing affordability, graduation, completion, and quality. On June 30, 2017, Ohio Governor Kasich signed HB 49, as amended, into law, the State's Biennium Budget Bill, which maintained higher education funding, or State Share of Instruction (SSI), at the fiscal year 2017 level of \$456 million over the two-year cycle of fiscal years 2018 and 2019. Tuition was frozen for fiscal year 2018 but certain fees were allowed to be increased. The College's share of SSI increased \$643,500 (2.3 percent) in fiscal year 2016 and is projected to increase \$457,100 (1.6 percent) in fiscal year 2017.

Major changes were made to the community college funding formula, or State Share of Instruction (SSI), over the last biennium ended June 30, 2015. For fiscal year 2014, SSI was based 50 percent on enrollment, 25 percent on course completions, and 25 percent on success point metrics, with additional weighted funding for access categories of low income, adult, and minority.

Cincinnati State Technical and Community College

Management's Discussion and Analysis (unaudited) (Continued)

For fiscal year 2015, the enrollment component of SSI was eliminated and replaced with a combination of course completions (50 percent), success points (25 percent), and completion metrics such as associate degrees, certificates, and transfers (25 percent). At-Risk or access category weights were assigned to eligible students (low-income, adult, minority). There was no stop loss in place for fiscal year 2015. A statewide funding consultation group comprised of representatives of each of the 23 Ohio community colleges was established to develop the SSI funding components and weights for fiscal year 2015, which they completed and added an additional risk category of academic preparedness for the 2016-2017 biennium budget.

Working in tandem with the governor's initiatives, the Ohio Board of Regents has been asked to work with the University System of Ohio adult career centers, community colleges, and universities to implement curricular models for graduating students with the skills employers are seeking as quickly and cost-effectively as possible. This Complete College Ohio initiative intends to provide comprehensive and bold new proposals to accomplish the goal of graduating more students and encouraging them to remain in Ohio upon graduation.

While the outlook for state support of higher education in Ohio is positive, the College exists in an increasingly competitive environment and faces challenging economic and demographic trends. In response to the competition, a number of proactive initiatives have been addressed in strategic planning, academics, workforce development, quality improvement, enrollment and retention, fundraising, energy management, and other services to minimize the economic impact of competition on the College's future operations.

Strategic Planning

The current strategic plan, *Surging Forward*, assists the College in directing its energy and resources to ensure that employees are working toward common goals to meet the goals of the institution. The *Surging Forward* plan challenges the College to develop new revenue streams, expand development efforts to lower out-of-pocket tuition costs, improve internal community, and provide academic support and incentives to foster student success. As the College has undergone a change in leadership, the current plan will be reevaluated and the next cycle of strategic planning will commence in 2018.

The *Surging Forward* plan contains four strategic goals: (1) *Increase Student Success* relates to improving graduation and retention rates; (2) *Expand Our Reach* includes increasing enrollment at off-campus sites and recruitment of targeted demographic populations such as Hispanic/Latino, international, veteran, and high school dual enrolled students; (3) *Strengthen Fiscal Sustainability* involves increasing operating reserves and priority-based budgeting as well as increasing nontraditional sources of revenue and scholarship funding; and (4) *Build Community* seeks to enhance the internal community by providing professional development and leadership opportunities, as well as improving internal communications. Targets have been established for all strategies and initiatives and a dashboard is used to monitor performance results related to the target goals.

Academics

The 2017-2018 academic year is a year of implementation of a wide array activities and resources strategically applied to increase the quality and effectiveness of student success and degree completion.

Cincinnati State Technical and Community College

Management's Discussion and Analysis (unaudited) (Continued)

A core objective of the college, of course, is to help students achieve a credential (an associate degree or certificate) for an in-demand career and also positions them to continue seamlessly on to a bachelor's degree or beyond should they choose. The College's Completion Plan is the central, organizing vehicle for studying, planning, implementing, and analyzing the effectiveness of efforts that support students throughout their academic journey. These efforts are organized within the Completion Plan along the four key phases of a student's academic journey to a degree: (1) Connection to the college; (2) First year; (3) Progress through degree; and (4) Completion/Graduation. Strategies in each of these categories are countermeasures to "loss points" and drivers of "momentum." Each strategy is overseen by a completion strategy subcommittee which reports progress and data analysis to the Completion Plan steering committee. Completion efforts in this regard, including data analysis, are supported by the College's internal structures, as well as externally by the College's membership and participation in the Student Success Leadership Institute (which is in turn supported by Ohio Association of Community Colleges, the Gates Foundation, and other national foundations focused upon college completion strategies). The work of the College's completion team committees has been transformative, with an unwavering focus upon the best application of resources and efforts to increase student success, persistence, and degree completion.

Completion Plan strategies are many and vary in scope. Below are of special focus this academic year:

1. Guided Pathways, in consultation with the Community College Research Institute (CCRC), which includes removing the silo effect and stigma of students completing their developmental education (80 percent of incoming students) via:
2. Embedding "pre-admit" academic advisors into the academic divisions to improve the student early advising experiences, sense of trajectory even during developmental coursework, and increase opportunities to connect pre-admit students earlier to their chosen field of interest
3. Eliminating the "pre-admit" status (which naturally silos students into developmental courses and poor course choices) in favor of "early pathways" curricula common to related associate degree programs (a "meta-majors" approach).
4. Creation of a career exploration course for each early pathway curriculum that provides students the benefit of time and guidance in refining their degree choice within their area of interest, in contrast to the current practice of requiring students to choose a precise major at the time of admission which results in unnecessary changes of major, lost time, and lost momentum.
5. Academic advising for new, first-time college students will move beyond highly encourage to a requirement. National data illustrates the efficacy of academic advising at the outset of a student's academic journey upon academic success, persistence, and degree completion.
6. First-year experience course, which both internal data and national data has demonstrated has a significant impact upon a student's success and persistence, is being required for all new, incoming students.

Cincinnati State Technical and Community College

Management's Discussion and Analysis (unaudited) (Continued)

This academic year also sees the completion of a systems portfolio study and report to the Higher Learning Commission. We will be on target for completing and submitting our portfolio by the end of this 2017 calendar year. The systems portfolio is one of our important accreditation activities that provides a robust format and process to examine the effectiveness and maturity of each of our college systems, academic and nonacademic. The systems portfolio is a continuous improvement process that goes far beyond minimal compliance, allowing the College to identify opportunities for improvement through a data-driven, cross-functional team approach. Once we file our report, HLC will provide us with feedback and advice, again, with an eye toward continuous improvement.

This academic year also sees the second year of operation for our Center for Teaching and Learning (CTL). Last year was a year for getting the CTL up and running. This year, the CTL can now offer faculty with support in teaching effectiveness, assessment, curriculum effectiveness, and professional development. As in other community colleges, our CTL is a cost-effective, on-site locus for increasing the quality and effectiveness of teaching and curriculum

The goal of *Expanding Our Reach* continues to include building new markets and to better serve special populations. A key activity in the past year has been the institution of an agreement with Cincinnati Public Schools and the Cincinnati Youth Collaborative. There are a number of components to this partnership. Key is providing Cincinnati Public High School students (approximately 33,000) to continue on to Cincinnati State upon high school graduation with a Cincinnati State "Be Great" grant. The Be Great grant program allows Pell eligible graduates of Cincinnati Public Schools up to \$2,000 for tuition and books. The Be Great program also provides mentors for students as they transition from high school to college. The College continues to deepen its range of College Credit Plus (CCP) offerings to additional schools in the Hamilton, Butler, and Warren County school districts. An example of deepening our offerings is to offer courses beyond Ohio Transfer Module Gen Ed courses to include courses that are prerequisite to those courses which high schools may not be in a position to offer. BIO 100 is an excellent example of a CCP course specifically designed by College faculty to satisfy the biology and math prerequisites at the high school for A&P and college level biology. Enrollment has remained in the range of 1,800 students receiving high school and college credit for the same courses.

The work to increase enrollment at off-campus sites continued. Since the last report, utilization of the Harrison campus, which houses the aviation program, has increased with more courses as part of a "start your degree here" promotion for transfer students. In addition, welding labs were completed at the Harrison Campus, made possible by a DOL TAACCCT grant. The welding labs, and the welding associate degree, are not yet at capacity enrollment. The previously completed Phase II of Middletown Campus expansion, with new labs and added personnel, has allowed the College to offer more STEM classes, including Natural Sciences and Nurse Aid Training. Distance Education growth has been strategic, with a current emphasis upon developing online formats of math and language developmental education courses necessary for many students before beginning online degree programs. By use of quality matters and faculty professional development, "Teaching Online for College" has improved student success in online courses. The College continues to work toward building new partnerships to support this work. A joint use agreement has been struck with Butler Tech, as well as a co-enrollment agreement with Butler Tech OTC.

Cincinnati State Technical and Community College

Management's Discussion and Analysis (unaudited) (Continued)

Enrollment and course completions of web-based courses (on-line learning) have increased in the past year. To continue to support the quality and effectiveness of web-based courses, the College is doing a refresh of its quality matters professional support for the design and for the teaching of web-based courses. The College this year also renewed its memberships in Midwestern SARA (State Authorization Reciprocity Agreement). SARA is the nationwide initiative to make distance education courses more accessible to students across state lines. The requirements include consistent processes for tracking online students and providing an array of support services for the students. The benefit is to be able operate online programs in other states without seeking independent authorization from those states, thus supporting expansion.

Outreach to special populations, high school students, veterans, international, and Hispanic students continues. The College will again host ENGAGE (on October 13, 2017), a two-day event for local/regional students, teachers, and families with hands-on demonstrations of college programs. The event is at capacity in terms of registrations. The College has continued the GE Skills to Work Program for Vets, hired managers for Veterans Affairs and International Student Affairs departments, and developed new partnerships with internal and cultural organizations such as Cincinnati Youth Collaborative, American Homestay Network, LULAC, Su Casa, and African Foundation USA.

New degree and certificate programs have been approved which will allow the College to meet the needs of new business markets across the region. The Brewing Science Associate Degree and the Paralegal Associate degrees were both approved by the Ohio Department of Higher Education and have since been successful launched as degree offerings. The Cyber Security program is being expanded in connection with Ohio Technical Centers via articulated credit. Finally, the college is submitting to ODHE a new program proposal to offer a Bachelor's Degree in two fields: Civil Engineering - Land Surveying and Culinary Food Science. (Community colleges in Ohio were recently approved to offer bachelor's degrees in instances of unmet employer needs.)

Finally, the College has completed mapping of college-wide outcomes (e.g., critical thinking, oral expression, etc.) to every course offered by the College. We are now using this mapping for implementing curriculum revisions where indicated by our mapping data.

Workforce Development

The College's Workforce Development Center (WDC) holds an established position as a primary agent in the delivery of workforce training and in the influence of state and regional workforce policy. Growing demand within the market for collaborative, high-impact workforce training is being driven by a number of economic and demographic influences; the improving economic outlook is causing companies to add new jobs, all while facing an aging workforce with a large proportion of incumbent workers approaching retirement age. At the same time, there remains a significant gap between the skills required for these positions and those skills possessed by the younger members of the regional workforce. Added to this is the increasing impact of disruptive technology on the marketplace, creating positions that simply did not exist even five years ago. The demand for industry training is projected to grow steadily over the next five years, and the WDC is uniquely poised to meet this growing demand.

Cincinnati State Technical and Community College

Management's Discussion and Analysis (unaudited) (Continued)

The WDC employs two primary strategies to accomplish the organization's mission and objectives. The primary commitment to develop and leverage industry partnerships in the generation of programs allows WDC to set its strategic direction. At the same time, WDC's strategy of establishing pathways continues to support the overall growth of the College by delivering stackable, credit-bearing credentials that provide students their first steps toward pursuing a college education. Each strategy brings unique opportunities for the College with its own positive outcomes.

Long-standing industry partnerships and new business participation are at the heart of the model that guides all WDC programming and consulting services. Technical Advisory Committees (TACs) comprised of industry and education experts enable the WDC to develop and deliver relevant training that makes a measurable impact on the regional workforce, and also drives bottom-line results for the center's clients. This focus on industry partnerships and the WDC's agility in responding to emerging needs continues to be its primary competitive advantage in the marketplace.

This emphasis on industry-driven services is exemplified by the rapid expansion of apprenticeship training programs that the WDC has developed and delivered in the past three years. Successfully launched WDC apprenticeship programs for companies including General Electric Aviation, Ford Motor Company, and A.K. Steel signal a resurgence of companies' demand for advanced and effective workforce education and training. The execution of these innovative programs is central to the WDC's sustained growth and success.

Emerging technologies continue to drive the workforce marketplace, and the WDC continues to leverage its business partnerships to identify, develop, and deliver new cutting-edge training programs through these collaborations. Recent partnerships have allowed for the launch of a new additive manufacturing training initiative, in partnership with Lightweight Innovations for Tomorrow (LIFT), GE Additive, America Makes, and other national and regional firms. Through this collaboration, the WDC will lead a national initiative to develop curriculum, train regional and national training partners in the subject, and ultimately deliver training for jobs in this explosive industry sector.

The WDC provides a unique, strategic opportunity for the College to deliver educational college-credit pathways to its students and the employees of its clients. Through the use of stackable credentials, successful programs such as the Child Development Associate (CDA) program allows students to complete industry training that leads to a professional certification, while also receiving college credit that is directly applicable to a degree program. As a result, many of the 160 students who completed the short-term training in CDA last fiscal year have gone on to pursue an Associate's Degree in Early Childhood Education, due in large part to the head-start granted by the stackable credentials. Initiatives such as these allow for the College to meet the immediate workforce training needs of its students and clients, while providing a steady stream of new students to the College's numerous certificate and degree programs.

As the demand for high-impact, industry-relevant training continues to rise over the next several years, the WDC remains positioned as a regional leader in workforce development, and is uniquely poised to grow and expand with the anticipated industry demand. The WDC remains committed to the highest levels of customer service and ROI, innovative programming and consulting services, academic excellence, revenue generation, and community service. These ambitious and measurable goals continue to be the primary contributor to the success of the clients and students it serves.

Cincinnati State Technical and Community College

Management's Discussion and Analysis (unaudited) (Continued)

Enrollment and Retention

For fiscal year 2017, total credit hours, headcount and FTEs were down from fiscal year 2016. Even though credit hours and head count were down from year over year, there was a slight improvement from previous year. There were also a number of factors contributing to this decline, including a decrease in the number of high school graduates, a continued improving regional employment picture, a shift of the number of credit hours enrolled from full time at 30 percent to part time at 70 percent. Initiatives are underway to address the decline in enrollment including but not limited to increasing targeted external marketing, bolstering the social media footprint, along with increasing the number of college recruiters from three to seven for realignment purposes. For reasons of efficiency, the College has combined the processing of admission and registration. The student services areas have plans to transition to more centric student focused services relating to recruitment, enrollment, and retention strategies.

Additionally, the College is one of three community colleges in Ohio currently participating in a replication study (ASAP - Accelerated Study in Associate Program from CUNY system of New York) to provide intensive case management services along with mitigating financial barriers to increase the number of students who graduate within three years. The preliminary results have shown an increased number of students who are retained, increased credit hours attempted and completed, with growth in persistence rates for program participants. Promising best practices from the study are under consideration for sustainability.

Important goals of the College's strategic plan are to increase retention from its current 45 percent to 55 percent by the end of fiscal year 2018; to broaden its footprint into new sites; increase distance education offerings; and grow enrollment of targeted populations such as College Credit Plus, veterans, and international students. College-wide efforts are underway to increase alignment of career pathways with credits for training within Workforce Development programming.

Strategies resulting from institutional goals, Ohio Completion Plan, and AQIP initiatives are in the implementation stages, which include continued efforts to increase high school enrollment; increasing scholarship monies to new first-time students through our "Be Great grant" awarded to high school students who are full-time, Pell eligible, and attend selected schools who are in partnership with community organization "Cincinnati Youth Commission" providing mentoring services along with tuition and books; earlier registration; increasing credit hours to complete associate degree programs; increasing course offerings through mid-mesters; and leveraging grant opportunities to provide additional services focused on student persistence from entry to graduation.

Energy Management

The College has displayed strong leadership in controlling energy consumption while at the same time providing facility access for extended days and hours to support the educational process. In recent years, multiple energy projects such as an HVAC DDC system replacement, lighting retrofits, window and door replacements, mechanical and equipment upgrades, submetering technology in the main building for continuous commissioning, and block scheduling practices have accelerated the reduction of energy demand allowing the College to exceed HB 251 energy efficiency goals ahead of schedule. The College stopped purchasing electric power through the regulated market and began purchasing electric power through the deregulated market, decreasing its costs by approximately 33 percent annually.

Cincinnati State Technical and Community College

Management's Discussion and Analysis (unaudited) (Continued)

In an ongoing effort to conserve energy and reduce expenses, garage lighting upgrades to LED were made in the College's two main parking garages, the Overlook cafeteria, the Summit Restaurant and Kitchen, the Fitness Center, several hallways in the Main Building, the library, and the College's hangar lights at its Cincinnati West Airport. Currently, the College is in the process of relighting both auditoriums in the ATLC Building with LEDs and the Atrium entry way in the Health Professionals Building. A new HVAC cooling tower was installed that will conserve water and help reduce energy, and another new cooling tower has been designed and is scheduled to be installed before next summer. The College has received capital funding from the State to convert the antiquated steam heating system in the main building to a much more efficient hot water heating system. The Evendale chiller replacement, the LED lighting installations, and the replacement of the last set of aged electric switch gear equipment continue to generate energy rebates to the College and utility consumption reduction. The installation of a new boiler in the D wing of the Main Building provides for improved temperature control related to the chemistry labs and the operation of the chemistry fume hoods. Emergency electrical panels have been upgraded to improve safety related to the College's electrical system.

State Capital Funding Investment

As part of the State of Ohio 2017-2018 capital budget allocation process, the College received \$6,655,000 for the 2017–2018 capital biennium period. These capital funds are designated for a \$3.1 million student completion and career services one-stop center, \$1.675 million in energy and efficiency projects and upgrades, and \$1.88 million for additive manufacturing labs and equipment.

During fiscal year 2017, the College continued to invest the \$4.6 million in capital funds it received from the 2015-2016 capital allocations for information technology upgrades for its "smart classroom" initiative, updating IT infrastructure and \$2.6 million for STEM lab renovations.

Deferred Maintenance

The College has invested \$5.5 million from General Fund appropriations into deferred maintenance projects over the past five years. Those funds were used to begin to address the backlog of deferred maintenance projects. The investment is made following four principles: (1) protection of the physical assets; (2) improvement of the utility systems function; (3) enhancement of safety and security; and (4) support of instructional programs. To improve the value of the scarce deferred maintenance funds, the College has partnered with the Resource Center and with Building Value to significantly reduce the cost of furniture and project demolition, respectively. Both the Resource Center and Building Value are significant community partners that support not-for-profit organizations and provide for the recycling of building furnishings and materials.

Significant projects accomplished through the deferred maintenance investment include repairs to the grease trap and steam line systems; repairs to College Drive; roof repairs at the Childcare Center, A and B Wings, and the Harrison Center; exterior weatherproofing; improvements to the Harrison Welding lab; security camera upgrades; refrigeration loop repairs; Arc Flash Study; and upgrading an elevator.

Cincinnati State Technical and Community College

Management's Discussion and Analysis (unaudited) (Continued)

Information Technology

The Information Technology Services (ITS) Division provides more than just technology services to the College community. Top priorities are for the College community to view the ITS Division as a partner in the College's overall success as well as a leader in encouraging innovation and improving services while providing cost-effective high quality education. ITS projects and activities support the College's strategic goals - *Increasing Student Success, Expanding Our Reach, Building Community, and Fiscal Sustainability*. For the College to be successful, it needs to focus on the four domains that impact learning: student, faculty, curricula, and home.

The presentation equipment in 21 classrooms was upgraded to HD and new systems were added to three classrooms that previously had no presentation equipment.

ITS completed the upgrade of the College's "Demo Kitchen." This room has the ability to host cooking shows as well as cooking classes. The upgrade included new projectors, cameras, and lighting.

Video conference/Interactive Video Distance Learning proof-of-concept began this past year and will conclude in the next year. This initiative will allow a class to be held in the Clifton campus as well as a virtual class to be held in the Middletown campus.

The online application for admission was redesigned to stream-line the application process and to enable the application mobile. This application will go live shortly after the start of fiscal year 2018.

The ITS Division continues to be in compliance with Payment Card Industry (PCI) Security Council Standards. This effort is part of a larger, more inclusive Information Security Program that includes an Information Security Council, Information Security Awareness Program, information security policies and standards, and change management processes and procedures.

ITS Helpdesk logged over 11,700 support/issue tickets in 2016-2017. Of those, 89 percent were resolved by first level support.

The ITS Division goals for 2017-2018 will be to:

1. Build a complete hardware inventory
2. Implement an acceptable use of technology acceptance program
3. Continue support of the new Welcome Center
4. Increase support for student access to course-related software
5. Complete the proof-of-concept for Interactive Video Distance Learning (IVDL). This will allow faculty to create a more interactive environment for off-campus students.
6. Support mandatory advising and career pathways
7. Continue 90 percent resolution of Helpdesk support/issue tickets by first level support
8. Enhance academic, student support services, and operation services
9. Support student completion initiatives

Cincinnati State Technical and Community College

Management's Discussion and Analysis (unaudited) (Continued)

10. Continue to increase the visibility of Atomic Learning/Hoonuit (online software training software) by both students and employees

Fundraising

The Cincinnati State Technical and Community College Foundation, a not-for-profit organization, through its volunteers and programs, promotes and supports the programs, services, and capital improvement projects of the College. The College Foundation operates so as to solicit, receive, hold, administer, and apply funds or other property, raised through gifts, devices, bequests, endowments, grants or otherwise, or proceeds thereof, for the benefit of the College.

Development will focus on rebuilding the College's Annual Fund operations and grow its endowment, as well as cultivate greater major gift opportunities. Student scholarships are a key component of the College's strategic plan as data has shown the significant impact they have on retention and graduation.

College/Faculty Relations

The College has experienced improved relations with faculty, as evidenced by improved scores across all PACE indicators. Moreover, the College administration, in concert with the faculty, has instituted a number of transparency and shared governance structures, including:

1. Inclusion of the Faculty Senate President in weekly Deans Council meetings
2. Establishment of President Advisory Council - A weekly cross-functional team that includes SEIU, AAUP, and administrators
3. Establishment of Faculty President and Interim Provost weekly Academic Matters meetings
4. Increased meeting rhythm and substantive expectations of Budget Advisory Team that includes faculty and college administrators

The prior three-year collective bargaining agreement between the College and the Cincinnati State Chapter of the American Association of University Professors (AAUP) that covered the period from September 2011 to August 2014 ended with an agreement that was especially challenging due to matters related to instructional workload as a result of the change from five 10-week academic terms to three 15-week semesters. In 2014, negotiations were approached in a collaborative manner and a tentative agreement reached before the contract period ended. The new agreement covers the period from 2014 to 2017. It addresses workload, allowing a progressive reduction to put College faculty in alignment with other community college faculty in Ohio. Major achievements for the administration include establishment of a new position (Annual Contracted Faculty), well-defined program chair duties, and an increase in the employee health benefits contribution. These changes position us for a strong future. In addition, the positive negotiations resulted in an improvement in faculty morale and commitment to college goals. Even with full deployment of the AAUP workload reduction, we were able to meet student demand by utilizing the new Annual Contracted Faculty option and more efficient course scheduling.

Cincinnati State Technical and Community College

Management's Discussion and Analysis (unaudited) (Continued)

Legislative changes in the State Teachers Retirement System have led to more faculty retirements than usual but most are now working part-time (postretirement) and training the many new faculty that have joined the College. While the retirements among faculty caused some challenges, there is opportunity to bring in new talent at a lower cost. Recent hires have impressive backgrounds, with teaching experience plus tremendous accomplishments in industry.

Middletown Campus

A product of a public/private collaboration between the College and Higher Education Partners LLC (HEP) of New Bedford, Massachusetts, Cincinnati State Middletown opened on August 29, 2012 and is now in its fifth year of operation. The term of the agreement was extended to 30 years from the original term of 20 years. The Ohio Attorney General's Office has approved the collaboration agreement.

The Middletown student population was originally projected at 200 students for the first full academic year, and over 350 students enrolled for the fall of 2012. In its first year, the Middletown campus offered 14 associate degree programs, five certificate programs, and 14 workforce development training programs for academic credit. In 2015, the College completed Phase III of Middletown expansion with additional lab and lecture space to support new degrees and courses. As of the fall of 2016, the Middletown Campus offers over 30 degree and certificate programs on location, online, and/or hybrid. Enrollment for the fall of 2016 is approximately 700 students.

HEP originally purchased the 60,000 sq. ft. former CG&E building in downtown Middletown located at 1 North Main Street that is providing academic programming for a student population capacity of up to 3,000 students. The nonrenovated second and fourth floors are not in use, which impacts the usable capacity.

HEP has invested up to \$6 million in the Middletown facility in acquisition, construction, and equipment costs. In 2014, HEP executed a sale and lease-back transaction with a third party and therefore no longer owns the physical plant. Pursuant to the terms of the agreement, the College is not responsible for facilities costs but has approval over design, construction, and equipment. The College also either owns or controls two other buildings in Middletown to use for future expansion in addition to the potential renovation of the second and fourth floors as set forth above. One of these buildings, the former Butler County building, is being leased and utilized by Middletown City Schools and houses an alternative high school program, the MiddState Academy. The other building owned by Cincinnati State is the former First National Bank building located across the street from 1 North Main and is currently vacant.

The College has complete control over academic programs and educational approvals offered at Middletown. HEP retains rights, duties, and financial responsibilities relating to the management and repair of the facility but the College has complete control over use of the facility. The College will retain records and be financially accountable for direct academic costs, academic support costs and operating expenses at Middletown. HEP will pay the College 5 percent of these costs as indirect costs and will guarantee that revenue is never less than 105 percent of these expenses.

HEP will receive 15 percent of all revenue (service fee) arising from the Middletown facility, including tuition and fees, Workforce Development programming revenue, State Subsidy, rental revenue, and any other revenue received from other public/private sources, if collaboration revenue is available. Once collaboration income is sufficient to pay for ongoing and rolled forward service fee and unreimbursed building costs, all excess net income goes to the College. Therefore the collaboration agreement is designed to protect the College from loss and provides for the possibility to receive excess income.

Cincinnati State Technical and Community College

Management's Discussion and Analysis (unaudited) (Continued)

The Cincinnati State Middletown Campus continues to make a positive contribution to the College's overall financial position through enhanced academic programming, expanded reach of prospective student recruitment, higher student retention and graduation rates, partnerships, continuous quality improvement, fundraising, and by continuing to successfully control costs through firm, sound fiscal and operational management.

Severance

In fiscal year 2016, the board of trustees offered a voluntary severance package to employees of the College; 23 employees accepted the package as of June 30, 2016. Under the terms of the severance package, eligible employees will receive a base salary amount capped at \$65,000 for faculty and administrative staff plus any accrued vacation and/or sick time earned at the College. Eligible sick leave for severance purposes is paid out at one day for every three earned, capped at 65 days; for vacation leave the cap is 60 days. Employees that accepted the severance package could be retained by the College for up to one year following their acceptance in May 2016. Employees that accepted the severance package are eligible to accrue benefits through their exit date.

As of June 30, 2016, the College accrued \$1,171,482 for the base salary amount of the employees who accepted the voluntary severance package. All benefits owed to these employees under the severance agreement were accrued within the compensated absences on the statement of net position.

In fiscal year 2017, the College did not offer a voluntary severance package to employees and made payments of \$579,924 on the voluntary severance package offered in fiscal year 2016. The outstanding balance at June 30, 2017 for the voluntary severance package was \$591,558.

Cincinnati State Technical and Community College

Statements of Net Position

	Cincinnati State Technical and Community College		Cincinnati State Technical and Community College Foundation	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Assets and Deferred Outflows of Resources				
Current Assets				
Cash and cash equivalents	\$ 2,382,485	\$ 4,253,770	\$ 1,267,441	\$ 1,178,071
Restricted cash	2,589,426	2,560,315	-	-
Accounts receivable:				
Accounts receivable - Net	11,730,527	11,500,256	-	-
Pledges receivable	-	-	228,205	424,977
Investments	4,723,777	4,814,665	8,446,737	7,061,245
Inventory	126,769	83,549	-	-
Prepaid and other assets	185,095	625,471	-	-
Total current assets	21,738,079	23,838,026	9,942,383	8,664,293
Noncurrent Assets				
Capital assets - Net	81,131,510	84,780,249	-	-
Other assets:				
Investments	7,373,410	8,039,352	-	-
Long-term lease receivable	220,262	382,943	-	-
Total assets	110,463,261	117,040,570	9,942,383	8,664,293
Deferred Outflows of Resources				
Deferred gain on advance refunding of bonds	1,186,963	1,392,225	-	-
Pension activity	19,864,430	9,109,867	-	-
Total assets and deferred outflows of resources	<u>\$ 131,514,654</u>	<u>\$ 127,542,662</u>	<u>\$ 9,942,383</u>	<u>\$ 8,664,293</u>
Liabilities, Deferred Inflows of Resources, and Net Position				
Current Liabilities				
Accounts payable	\$ 1,428,995	\$ 2,025,479	\$ 136,333	\$ 145,734
Current portion of capital leases	657,991	1,323,970	-	-
Current portion of long-term debt	2,688,385	2,633,385	-	-
Unearned revenue	3,885,462	4,168,476	-	-
Accrued liabilities:				
Payroll	774,063	2,127,727	-	-
Compensated absences	2,200,436	2,376,939	-	-
Severance	591,558	1,171,482	-	-
Interest	642,935	648,470	-	-
Other	1,684,335	1,355,556	-	-
Total current liabilities	14,554,160	17,831,484	136,333	145,734
Noncurrent Liabilities				
Long-term debt	33,390,308	36,085,195	-	-
Long-term capital leases	1,055,242	1,207,736	-	-
Net pension liability	106,775,048	95,647,121	-	-
Total liabilities	155,774,758	150,771,536	136,333	145,734
Deferred Inflows of Resources - Pension activity	11,170,100	11,041,949	-	-
Net Position				
Net investment in capital assets	45,118,015	45,875,758	-	-
Restricted expendable	1,018,832	1,154,219	3,123,960	2,470,828
Unrestricted	(81,567,051)	(81,300,800)	789,596	799,323
Restricted nonexpendable	-	-	5,892,494	5,248,408
Total net position	(35,430,204)	(34,270,823)	9,806,050	8,518,559
Total liabilities, deferred inflows of resources, and net position	<u>\$ 131,514,654</u>	<u>\$ 127,542,662</u>	<u>\$ 9,942,383</u>	<u>\$ 8,664,293</u>

Cincinnati State Technical and Community College

Statements of Revenue, Expenses, and Changes in Net Position

	Cincinnati State Technical and Community College		Cincinnati State Technical and Community College Foundation	
	Year Ended			
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Operating Revenue				
Student tuition and fees	\$ 33,074,541	\$ 35,885,289	\$ -	\$ -
Less scholarship allowance	(10,321,356)	(10,703,933)	-	-
Net student tuition and fees	22,753,185	25,181,356	-	-
Federal grants and contributions	3,702,080	4,758,312	-	-
State grants and contributions	704,594	839,776	-	-
Private gifts, grants, and contributions	1,443,417	1,465,114	-	-
Contributions	-	-	2,361,026	4,603,099
Departmental and other educational activities	2,302,416	1,849,470	-	-
Auxiliary enterprises	3,150,017	3,370,214	-	-
Other operating revenue	1,198,441	1,508,401	625,699	(73,167)
Total operating revenue	35,254,150	38,972,643	2,986,725	4,529,932
Operating Expenses				
Instruction	29,307,555	29,720,373	1,176,906	1,810,498
Public service	3,980,659	4,224,251	-	-
Academic support	6,411,820	6,518,735	-	-
Student services	7,358,364	8,100,728	-	-
Scholarships and student aid	1,032,023	924,377	-	-
Auxiliary enterprises	3,350,958	3,734,246	-	-
Institutional support	16,274,806	16,363,609	-	-
Operation and maintenance	5,580,485	6,172,730	-	-
Depreciation and amortization	4,236,627	4,336,818	-	-
Other expenses	-	-	707,684	549,916
Total operating expenses	77,533,297	80,095,867	1,884,590	2,360,414
Operating (Loss) Income	(42,279,147)	(41,123,224)	1,102,135	2,169,518
Nonoperating Revenue (Expense)				
Federal Pell grants	9,573,091	10,071,309	-	-
State appropriations	30,516,038	30,306,392	-	-
Investment income	108,345	336,971	185,356	193,912
Interest on capital asset related debt	(1,208,450)	(1,357,938)	-	-
Net nonoperating revenue	38,989,024	39,356,734	185,356	193,912
(Loss) Income - Before other revenue, expenses, gains, and losses	(3,290,123)	(1,766,490)	1,287,491	2,363,430
Other Revenue, Expenses, Gains, and Losses				
Capital grants and gifts	9,945	120,655	-	-
Capital appropriations from State	2,120,797	483,128	-	-
Total other revenue, expenses, gains, and losses	2,130,742	603,783	-	-
(Decrease) Increase in Net Position	(1,159,381)	(1,162,707)	1,287,491	2,363,430
Net Position				
Beginning of year	(34,270,823)	(33,108,116)	8,518,559	6,155,129
End of year	\$ (35,430,204)	\$ (34,270,823)	\$ 9,806,050	\$ 8,518,559

Cincinnati State Technical and Community College

Statements of Cash Flows

	Year Ended	
	June 30, 2017	June 30, 2016
Cash Flows from Operating Activities		
Tuition and fees	\$ 22,362,048	\$ 25,263,643
Federal, state, and local grants and contracts	4,318,750	5,832,834
Payments to suppliers	(22,168,446)	(20,397,891)
Payments to employees	(38,654,378)	(40,524,782)
Payments to utilities	(1,482,285)	(1,435,642)
Payments for benefits	(8,087,705)	(9,039,206)
Payments for scholarships and student financial aid	(1,032,023)	(924,377)
Auxiliary enterprises revenues	3,150,017	3,370,214
Auxiliary enterprises expenses	(3,350,958)	(3,734,246)
Sales and services of educational activities	2,302,416	1,849,470
Other receipts	2,643,451	2,890,302
Net cash used in operating activities	(39,999,113)	(36,849,681)
Cash Flows from Noncapital Financing Activities		
State appropriations	30,516,038	30,306,392
Pell receipts and disbursements	9,573,091	10,071,309
Federal direct student loan program receipts	23,712,628	19,950,447
Federal direct student loan program disbursements	(23,712,628)	(19,950,447)
Net cash provided by noncapital financing activities	40,089,129	40,377,701
Cash Flows from Capital and Related Financing Activities		
Capital appropriations from the State	2,120,797	483,128
Principal payments on bonds	(2,434,625)	(2,217,521)
Principal payments on capital lease obligations	(1,115,450)	(1,225,982)
Proceeds from capital lease receivable	127,867	223,648
Interest payments on bonds and capital lease obligations	(1,213,985)	(1,279,508)
Capital grants and gifts received	9,945	120,655
Purchase of capital assets	(291,914)	(1,155,808)
Net cash used in capital and related financing activities	(2,797,365)	(5,051,388)
Cash Flows from Investing Activities		
Investment income	108,345	336,971
Purchase of investment securities	(13,784,153)	(10,517,860)
Proceeds from sale and maturities of investment securities	14,540,983	13,516,703
Net cash provided by investing activities	865,175	3,335,814
Net (Decrease) Increase in Cash and Cash Equivalents	(1,842,174)	1,812,446
Cash and Cash Equivalents - Beginning of year	6,814,085	5,001,639
Cash and Cash Equivalents - End of year	\$ 4,971,911	\$ 6,814,085
Net Position Classification of Cash and Cash Equivalents		
Cash and cash equivalents	\$ 2,382,485	\$ 4,253,770
Restricted cash	2,589,426	2,560,315
Total cash and cash equivalents	\$ 4,971,911	\$ 6,814,085

Cincinnati State Technical and Community College

Statements of Cash Flows (Continued)

	Year Ended	
	June 30, 2017	June 30, 2016
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	\$ (42,279,147)	\$ (41,123,224)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation expense	4,236,627	4,336,818
Provisions for doubtful accounts	967,921	1,469,336
Loss on disposal of capital assets	1,003	22,145
Changes in operating assets and liabilities, deferred inflows of resources, and deferred outflows of resources which (used) provided cash:		
Receivables	(1,163,378)	(856,565)
Inventories	(43,220)	68,135
Other assets	440,376	525,291
Accounts payable and accrued expenses	(2,377,796)	1,073,869
Unearned revenue	(283,014)	(401,096)
Deferred inflows of resources - Pension activity	128,151	(4,973,971)
Deferred outflows of resources - Pension activity	(10,754,563)	(2,635,869)
Net pension liability	11,127,927	5,645,450
	\$ (39,999,113)	\$ (36,849,681)
Supplemental Disclosure of Noncash Financing Activities		
Equipment and improvements capitalized under capital leases	\$ 296,977	\$ 626,734
HEP lease receivable under capital leases	-	300,000

Cincinnati State Technical and Community College

Notes to Financial Statements June 30, 2017 and 2016

Note 1 - Nature of Business and Significant Accounting Policies

Organization - Cincinnati State Technical and Community College (the "College") is a community college organized under the laws of the state of Ohio. The College is a two-year institution of higher education receiving assistance from the State of Ohio through enrollment-based subsidies. The subsidies are determined annually based upon a formula devised by the Ohio Department of Higher Education, adjusted to consider state resources available. The College offers associate degree programs and majors and certificate programs in a distinctive plan of cooperative education which prepares students for employment and/or career advancement upon graduation. Furthermore, among other things, community college status allows the College to offer university transfer degrees (e.g., Associate of Art and Associate of Science degrees). The College is a component unit of the State of Ohio.

GASB Statement No. 61, *The Financial Reporting Entity - Omnibus*, provides guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Generally, it requires reporting as a component unit an organization that raises and holds significant economic resources for the direct benefit of a government unit. The Cincinnati State Technical and Community College Foundation (the "Foundation") is being discretely presented as part of the College reporting entity (although it is a legally separate entity and governed by its own board of directors) because its sole purpose is to provide support for the College. Furthermore, in accordance with GASB Statement No. 61, the Foundation is reported in separate columns on the College's financial statements to emphasize that it is legally separate from the College. Separate statements for the Foundation may be obtained through the State of Ohio auditor's website.

The Foundation is a private organization that reports under FASB standards. As such, certain revenue recognition criteria and presentation features are different from those under GASB. No modifications have been made to the Foundation's financial information included in the College's financial report to account for these differences.

The Foundation is an Ohio nonprofit corporation and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation was formed to receive contributions, which are to be used to support the educational undertakings of the College. The College provides certain administrative and payroll services for the Foundation.

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).

Cincinnati State Technical and Community College

Notes to Financial Statements June 30, 2017 and 2016

Note I - Nature of Business and Significant Accounting Policies (Continued)

In accordance with GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, and subsequent standards issued by GASB, the College reports as an entity engaged in business-type activities. GASB Statement No. 35 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 position categories:

- **Net Investment in Capital Asset** - The College's investment in capital assets, net of outstanding debt obligations and deferred gain on advance bond refunding related to the acquisition, construction, or improvement of those assets.
- **Restricted - Expendable** - Resources the College is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.
- **Restricted - Unexpendable** - Resources the College is legally or contractually obligated to retain in perpetuity.
- **Unrestricted** - The unrestricted component of net position represents assets, deferred outflows, liabilities, and deferred inflows whose use by the College is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the board.

The financial statement presentation required by GASB Statement No. 35 is intended to provide a comprehensive, entity-wide perspective of the College's business-type activities including all assets, liabilities, net position, revenue, expenses, changes in net position, and cash flows.

Cash and Cash Equivalents - In accordance with the State of Ohio and College policy, the College is authorized to invest cash in United States government securities, federal agencies' securities, State of Ohio securities, and certificates of deposit, all of which are stated at fair value. The College considers all highly liquid investments purchased with original maturity of three months or less to be cash equivalents.

The restricted cash balance represents debt service amounts to be paid by the College each year (see Note 6). At June 30, 2017 and 2016, the College had restricted cash of \$2,589,426 and \$2,560,315, respectively.

Cincinnati State Technical and Community College

Notes to Financial Statements June 30, 2017 and 2016

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Accounts Receivable - Accounts receivable are stated at net invoice amounts and consist of amounts due for tuition and fees, grants and contracts, and auxiliary enterprise services. Grants and contracts receivable include amounts due from the federal government, state and local governments, or private sources, as reimbursement for certain expenditures made in accordance with the agreements. An allowance for bad debts is established on a specific assessment of all invoices that remain unpaid following normal customer payment periods. All amounts deemed uncollectible are charged against bad debt expense in the period that determination is made.

Investments - Investments are reported at fair value based on quoted market prices. Changes in unrealized gains (losses) on the carrying value of investments are reported as a component of investment income in the statements of revenue, expenses, and changes in net position.

The College has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office that allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB) Statement No. 79, *Accounting and Financial Reporting for Certain External Investment Pools and Pool Participants*, which establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost.

Prepaid Assets - Payments made to vendors for services that will benefit periods beyond the year end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expense is reported in the year in which the services are consumed.

Capital Assets - Land, land improvements, buildings, equipment, and library books are stated at cost at date of acquisition or, in the case of gifts, fair value at date of donation. Subsequent additions have been recorded at cost. Additions greater than \$5,000 are capitalized for furniture and fixtures and greater than \$1,000 for all other assets. The costs of normal maintenance and repairs are not capitalized. Expenditures for construction in progress are capitalized as incurred. Infrastructure assets are included in the financial statements and are depreciated. Depreciation is computed using the straight-line method over the estimated useful life of the asset.

Cincinnati State Technical and Community College

Notes to Financial Statements June 30, 2017 and 2016

Note I - Nature of Business and Significant Accounting Policies (Continued)

The following estimated useful lives are used to compute depreciation:

	<u>Years</u>
Land improvements	20
Buildings and improvements	15-60
Equipment and furniture	3-20
Library books and audio visual	20

Deferred Outflows of Resources - In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

Deferred outflows consist of deferred charges arising from the advance refunding of the 2002 bond issue as the difference between the reacquisition price and the net carrying amount of the old debt. The College recorded deferred outflows of \$1,186,963 and \$1,392,225 at June 30, 2017 and 2016, respectively, related to this transaction.

In addition, the College has deferred outflows recorded for the net pension liability. See Note 18 for additional information.

Unearned Revenue - Revenue received prior to year end that relates to the next fiscal period is recorded as unearned revenue. Unearned revenue relates primarily to summer-term tuition received prior to June 30. The remaining amount included in unearned revenue relates to grant and award monies received in excess of costs incurred as of year end for College programs financed by government agencies and other organizations.

Compensated Absences - College employees earn vacation and sick leave benefits based, in part, on length of service. Accumulated unpaid vacation and sick leave benefits have been accrued in accordance with GASB Statement No. 16, *Accounting for Compensated Absences upon Separation from Service*, employees are paid their accumulated vacation and sick pay based upon the nature of the separation (termination, retirement, or death). Certain limits are placed on the hours of vacation and sick leave that employees may accumulate and carry over for payment at termination, retirement, or death. Unused hours exceeding the limits are forfeited. The estimated and accrued liability is recorded at year end in the statements of net position, and the net change from the prior year is recorded as a component of operating expense in the statements of revenue, expenses, and changes in net position.

Cincinnati State Technical and Community College

Notes to Financial Statements June 30, 2017 and 2016

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Pensions - For the purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State Teachers Retirement System of Ohio (STRS) and School Employees Retirement System of Ohio Pension Plan (SERS) and additions to/deductions from STRS' and SERS' fiduciary net position have been determined on the same basis as they are reported by STRS and SERS. STRS and SERS use the economic resources measurement focus and the full accrual basis of accounting. Contribution revenue is recorded as contributions are due, pursuant to legal requirements. Benefit payments (including refunds of employee contributions) are recognized as expense when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources - In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The College's deferred inflows of resources relate to the net pension liability (see Note 18).

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

Self Insurance - Effective January 1, 2016, the College is self-insured for certain employee health programs. A liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, is recorded.

Grants and Scholarships - Student tuition and fees are presented net of scholarships and student financial aid applied directly to student accounts. Scholarships and student financial aid consist primarily of awards to students from certain government programs. Payments made directly to students from scholarships and student financial aid are presented as student aid expense.

Operating and Nonoperating Revenue and Expenses - All revenue and expenses from programmatic sources are considered to be operating revenue and expenses. Included in nonoperating revenue and expenses are state appropriations, investment income and gifts, and interest expense.

In addition, in accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, and related implementation guidance, Pell Grants and certain other grants are considered nonexchange transactions and are recorded as nonoperating revenue.

Cincinnati State Technical and Community College

Notes to Financial Statements June 30, 2017 and 2016

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Release of Restricted Funds - When expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the College's policy to apply restricted resources first, then unrestricted resources as needed.

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, liabilities, revenue, and expenditures during the reporting period. Disclosure of contingent assets and liabilities at the date of the financial statements may also be affected. Actual results could differ from those estimates.

Upcoming Accounting Standards - In June 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 87, *Leases*, which increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The new lease standard will increase current and noncurrent assets and liabilities upon adoption. The effect of applying the new lease guidance on the financial statements has not yet been determined. The effects on the statement of revenue, expenses and changes in net position are not expected to be significant. The provisions of this statement are effective for the College's financial statements for the year ending June 30, 2021.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which addresses reporting by governments that provide postemployment benefits other than pensions (OPEB) to their employees and for governments that finance OPEB for employees of other governments. This OPEB standard will require the College to recognize on the face of the financial statements its proportionate share of the net OPEB liability related to its participation in the plan. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The College is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for the College's financial statements for the year ending June 30, 2018.

Cincinnati State Technical and Community College

Notes to Financial Statements June 30, 2017 and 2016

Note 2 - Cash, Cash Equivalents, and Investments

State of Ohio statutes generally require funds to be deposited in a bank with Federal Deposit Insurance Corporation (FDIC) insurance coverage, with the balance exceeding the FDIC coverage adequately collateralized by the depository bank. Such collateral must consist of securities pledged and held in the College's name or under a pooled security arrangement not in the College's name but where the pledged amount is at least 110 percent of the deposit balance.

At June 30, 2017, the carrying amount of the College's deposits (which consist of cash, excluding cash on hand of \$15,500, deposits held by trustee, and investments) was \$2,366,985 and the bank balance was \$5,281,288. The difference between the carrying amount and the depository bank balance is due principally to outstanding checks and deposits-in-transit. Of the bank balance, \$250,000 is covered by the Federal Deposit Insurance Corporation. At June 30, 2016, the carrying amount of the College's deposits (which consist of cash, excluding cash on hand of \$15,420, deposits held by trustee, and investments) was \$4,238,350 and the bank balance was \$3,416,780.

The College also has investment management agreements with PNC Bank, as permitted by state statute. The agreements allow (within state limits) investment in both debt and equity instruments.

Investments at June 30 were as follows:

	2017	2016
Bond funds	\$ 10,720,495	\$ 11,826,428
Money market funds	1,376,514	1,027,412
STAR Ohio funds	178	177
Total	<u>\$ 12,097,187</u>	<u>\$ 12,854,017</u>

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates and in accordance with state statutes, the College's investment policy limits portfolio maturities to five years or less.

As of June 30, the College investment maturities were as follows:

June 30, 2017	Fair Value	Less than 1 Year	1-5 Years
U.S. government obligations	\$ 9,070,247	\$ 2,449,416	\$ 6,620,831
U.S. government agency bonds	1,650,248	897,669	752,579
Money market funds	1,376,514	1,376,514	-
STAR Ohio funds	178	178	-
Total	<u>\$ 12,097,187</u>	<u>\$ 4,723,777</u>	<u>\$ 7,373,410</u>

Cincinnati State Technical and Community College

Notes to Financial Statements June 30, 2017 and 2016

Note 2 - Cash, Cash Equivalents, and Investments (Continued)

June 30, 2016	Fair Value	Less than 1 Year	1-5 Years
U.S. government obligations	\$ 9,755,243	\$ 3,385,764	\$ 6,369,479
U.S. government agency bonds	2,071,185	401,312	1,669,873
Money market funds	1,027,412	1,027,412	-
STAR Ohio funds	177	177	-
Total	<u>\$ 12,854,017</u>	<u>\$ 4,814,665</u>	<u>\$ 8,039,352</u>

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The College's investment policy contains provisions to manage credit risk. Credit quality, as commonly expressed in terms of credit ratings issued by nationally recognized statistical rating organizations such as Moody's Investors Service, Standard & Poor's, or Fitch Ratings, provides a current depiction of the potential variable cash flows and credit risk.

As of June 30, 2017 and 2016, approximately 6 percent (\$753,000) and 6 percent (\$768,000) of the College's portfolio is held in various Federal National Mortgage Association notes, and approximately 7 percent (\$898,000) and 10 percent (\$1,303,000) is held in various Federal Home Loan Mortgage Corporation notes, respectively.

Investment	Fair Value	Quality Rating	
		AAA (M)	AA+ (S&P)
June 30, 2017			
Bond funds	\$ 10,720,495	\$ 10,720,495	\$ -
Money market funds	1,376,514	1,376,514	-
STAR Ohio funds	178	178	-
Total	<u>\$ 12,097,187</u>	<u>\$ 12,097,187</u>	<u>\$ -</u>
June 30, 2016			
Bond funds	\$ 11,826,428	\$ 11,826,428	\$ -
Money market funds	1,027,412	1,027,412	-
STAR Ohio funds	177	177	-
Total	<u>\$ 12,854,017</u>	<u>\$ 12,854,017</u>	<u>\$ -</u>

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The College's investment policy limits investments, at cost, to no more than 10 percent in any single issue, except the investments of U.S. government securities. As of June 30, 2017 and 2016, there were no single-issuer investments that exceeded 5 percent of total investments.

Cincinnati State Technical and Community College

Notes to Financial Statements June 30, 2017 and 2016

Note 2 - Cash, Cash Equivalents, and Investments (Continued)

Foreign Currency Risk - Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value as a result of changes in foreign currency exchange rates. At June 30, 2017 and 2016, the College had no exposure to foreign currency risk.

Note 3 - Fair Value Measurement

The College categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The College's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The College has the following recurring fair value measurements as of June 30, 2017 and 2016:

Assets Measured at Fair Value on a Recurring Basis

	Balance at June 30, 2017	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Debt securities:				
Domestic treasury bonds	\$ 9,070,247	\$ -	\$ 9,070,247	\$ -
Domestic mortgage bonds	1,650,248	-	1,650,248	-
Total investments by fair value level	\$ 10,720,495	\$ -	\$ 10,720,495	\$ -

Cincinnati State Technical and Community College

Notes to Financial Statements June 30, 2017 and 2016

Note 3 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis

	Balance at June 30, 2016	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Debt securities:				
Domestic treasury bonds	\$ 9,755,243	\$ -	\$ 9,755,243	\$ -
Domestic mortgage bonds	2,071,185	-	2,071,185	-
Total investments by fair value level	<u>\$ 11,826,428</u>	<u>\$ -</u>	<u>\$ 11,826,428</u>	<u>\$ -</u>

The fair value of debt securities classified as Level 2 is valued using other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Short-term investment and investments on the statement of net position at June 30, 2017 and 2016 include money market investments of \$1,376,514 and \$1,027,412, respectively, and investments in STAR Ohio of \$178 and \$177, respectively. The money market investments and investments in STAR Ohio are measured at amortized costs; therefore, they are not included in the tables above.

There are no limitations or restrictions on any STAR Ohio participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given to STAR Ohio 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transactions to \$50 million, requiring excess amounts to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the STAR Ohio investors will be combined for these purposes.

Cincinnati State Technical and Community College

Notes to Financial Statements June 30, 2017 and 2016

Note 4 - Accounts Receivable

Accounts receivable, net of allowance for doubtful accounts, as of June 30 were as follows:

	<u>2017</u>	<u>2016</u>
Grants	\$ 825,994	\$ 1,023,150
State appropriations	-	11,566
Tuition and other	15,816,501	14,484,870
Collaboration agreement	492,865	492,903
Leases	1,086,016	1,213,883
Less allowance for doubtful accounts	<u>(6,270,587)</u>	<u>(5,343,173)</u>
Total accounts receivable	11,950,789	11,883,199
Less long-term lease receivable	<u>(220,262)</u>	<u>(382,943)</u>
Current accounts receivable	<u>\$ 11,730,527</u>	<u>\$ 11,500,256</u>

The College has entered into a public/private collaboration agreement (the "Agreement") with Higher Education Partners, LLC (HEP) of New Bedford, Massachusetts to open a new College location in Middletown, Ohio effective for fall semester 2012 (opened on August 29, 2012). The initial term of the Agreement is 20 years (four renewals every five years) and the Agreement was approved by the Ohio Attorney General.

Under the Agreement, HEP will invest up to \$6,000,000 in the Middletown facility in acquisition, construction, and equipment costs. The College will not be responsible for any of these costs but has approval over design, construction, and equipment and the right to purchase the Middletown facility at the end of the initial term for HEP's original acquisition cost.

The Agreement provides for the College to receive collaborative agreement revenue equal to 105 percent of agreed-upon expenses for participation in agreed-upon revenue (as defined in the Agreement) by HEP and for excess net income to be received by the College after covering 105 percent of HEP expenses and a 15 percent service fee; therefore, the Agreement is designed to protect the College from loss and provides for the possibility to receive excess income.

During fiscal years 2017 and 2016, certain amounts were advanced to HEP and certain amounts were paid to the College as part of the Agreement. The net advance to HEP at June 30, 2017 and 2016 was \$492,865 and \$492,903, respectively.

Cincinnati State Technical and Community College

Notes to Financial Statements June 30, 2017 and 2016

Note 4 - Accounts Receivable (Continued)

In addition, HEP has leased certain equipment, improvements, and other assets from the College under a lease agreement. Annual principal and interest payments under these leases for the years ending June 30 are as follows:

Years Ending June 30	Principal	Interest	Total
2018	\$ 865,754	\$ 12,353	\$ 878,107
2019	93,568	7,011	100,579
2020	67,162	3,895	71,057
2021	59,532	1,429	60,961
Total	1,086,016	24,688	1,110,704
Less current portion	(865,754)	(12,353)	(878,107)
Long-term lease receivable	\$ 220,262	12,335	\$ 232,597

Note 5 - Capital Assets

Capital asset activity for the years ended June 30 were as follows:

	Balance July 1, 2016	Additions	Transfers and Disposals	Balance June 30, 2017
Nondepreciable assets:				
Land	\$ 2,321,359	\$ -	\$ -	\$ 2,321,359
Construction in progress	112,622	9,712	(122,334)	-
Total nondepreciable assets	2,433,981	9,712	(122,334)	2,321,359
Depreciable assets:				
Land improvements	2,256,078	296,977	122,334	2,675,389
Building and improvements	133,414,180	-	-	133,414,180
Equipment and furniture	7,983,204	246,464	(5,000)	8,224,668
Library books and audio visual	1,195,007	35,738	(8,018)	1,222,727
Total depreciable assets	144,848,469	579,179	109,316	145,536,964
Accumulated depreciation:				
Land improvements	1,843,530	54,675	-	1,898,205
Building and improvements	54,117,818	3,696,065	-	57,813,883
Equipment and furniture	6,025,794	420,493	-	6,446,287
Library books and audio visual	515,059	65,394	(12,015)	568,438
Subtotal	62,502,201	4,236,627	(12,015)	66,726,813
Net capital assets, depreciable	82,346,268	(3,657,448)	121,331	78,810,151
Net capital assets	\$ 84,780,249	\$ (3,647,736)	\$ (1,003)	\$ 81,131,510

Cincinnati State Technical and Community College

Notes to Financial Statements June 30, 2017 and 2016

Note 5 - Capital Assets (Continued)

	Balance July 1, 2015	Additions	Transfers and Disposals	Balance June 30, 2016
Nondepreciable assets:				
Land	\$ 2,321,359	\$ -	\$ -	\$ 2,321,359
Construction in progress	-	112,622	-	112,622
Total nondepreciable assets	2,321,359	112,622	-	2,433,981
Depreciable assets:				
Land improvements	2,256,078	-	-	2,256,078
Building and improvements	132,244,354	1,262,437	(92,611)	133,414,180
Equipment and furniture	7,830,937	370,819	(218,552)	7,983,204
Library books and audio visual	1,287,677	36,664	(129,334)	1,195,007
Total depreciable assets	143,619,046	1,669,920	(440,497)	144,848,469
Accumulated depreciation:				
Land improvements	1,788,855	54,675	-	1,843,530
Building and improvements	50,450,520	3,759,909	(92,611)	54,117,818
Equipment and furniture	5,783,731	456,930	(214,867)	6,025,794
Library books and audio visual	560,629	65,304	(110,874)	515,059
Subtotal	58,583,735	4,336,818	(418,352)	62,502,201
Net capital assets, depreciable	85,035,311	(2,666,898)	(22,145)	82,346,268
Net capital assets	\$ 87,356,670	\$ (2,554,276)	\$ (22,145)	\$ 84,780,249

Equipment and improvements recorded under capital leases amounted to \$4,032,597 and \$3,735,619 at June 30, 2017 and 2016, respectively. Accumulated depreciation and amortization related to these assets amounted to \$2,296,062 and \$1,700,255 for the years ended June 30, 2017 and 2016, respectively.

Note 6 - Long-term Debt

Long-term debt activity for the years ended June 30, 2017 and 2016 was as follows:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Due Within One Year
General receipts bonds	\$ 37,450,000	\$ -	\$ (2,455,000)	\$ 34,995,000	\$ 2,510,000
Bond premium	1,268,580	-	(184,887)	1,083,693	178,385
Total bonds payable	38,718,580	-	(2,639,887)	36,078,693	2,688,385
Capital lease obligation	2,531,706	296,977	(1,115,450)	1,713,233	657,991
Total	\$ 41,250,286	\$ 296,977	\$ (3,755,337)	\$ 37,791,926	\$ 3,346,376

Cincinnati State Technical and Community College

Notes to Financial Statements June 30, 2017 and 2016

Note 6 - Long-term Debt (Continued)

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Due Within One Year
General receipts bonds	\$ 39,680,000	\$ -	\$ (2,230,000)	\$ 37,450,000	\$ 2,455,000
Bond premium	1,472,518	-	(203,938)	1,268,580	178,385
Total bonds payable	41,152,518	-	(2,433,938)	38,718,580	2,633,385
Capital lease obligation	2,830,954	926,734	(1,225,982)	2,531,706	1,323,970
Total	\$ 43,983,472	\$ 926,734	\$ (3,659,920)	\$ 41,250,286	\$ 3,957,355

During the year ended June 30, 2003, the College issued General Receipts Bonds, Series 2002 for \$47,580,000 that bore interest rates between 2.25 percent to 5.25 percent and mature in 2029. Proceeds were used for paying costs of capital facilities. The bonds were collateralized by a pledge of general receipts of the College. The bond agreement includes certain covenants and guidelines related to the College's indebtedness.

On February 23, 2012, the College issued \$38,775,000 in General Receipts Refunding Bonds, Series 2012 with an average effective interest rate of 3.33 percent and that mature in 2029 to advance refund \$36,815,000 of the outstanding Series 2002 bonds. The net proceeds of \$40,470,000 (after payment of \$440,000 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on these 2002 Series bonds. As a result, these 2002 Series bonds are considered to be defeased and the liability for those bonds has been removed from the statement of net position. The Series 2012 bond agreement also includes certain covenants and guidelines related to the College's indebtedness.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$2,370,000. This difference, reported as a deferred outflow on the statement of net position, is being charged to operations through the year 2029 using the effective-interest method. The balance of the defeased debt in the escrow account at June 30, 2017 is approximately \$31,685,000.

The annual debt service requirements to maturity for the bonds for the years ending June 30 were as follows:

	Principal	Interest	Total
2018	\$ 2,510,000	\$ 1,170,663	\$ 3,680,663
2019	2,590,000	1,105,363	3,695,363
2020	2,655,000	1,010,263	3,665,263
2021	2,715,000	957,163	3,672,163
2022	2,800,000	862,888	3,662,888
Thereafter	21,725,000	2,925,763	24,650,763
Total	\$ 34,995,000	\$ 8,032,103	\$ 43,027,103

Cincinnati State Technical and Community College

Notes to Financial Statements June 30, 2017 and 2016

Note 6 - Long-term Debt (Continued)

Future minimum lease payments under capital lease obligations for the years ending June 30 were as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 657,991	\$ 49,796	\$ 707,787
2019	531,038	29,750	560,788
2020	267,713	17,611	285,324
2021	207,287	7,247	214,534
2022	49,204	1,165	50,369
Total	<u>\$ 1,713,233</u>	<u>\$ 105,569</u>	<u>\$ 1,818,802</u>

Note 7 - Employee Benefit Plans

All employees of the College are members of a pension plan. College employees holding a position for which the Ohio Department of Teacher Education and Certification does not require a certificate are members of the School Employees Retirement System (SERS) and College employees holding a position that requires a certificate are members of the State Teachers Retirement System of Ohio (STRS). See Note 18 for further information.

Effective March 31, 1999, the board of trustees of the College approved the Chapter 3305 Alternative Retirement Plan in accordance with the provisions of Chapter 3305 of the Ohio Revised Code, which requires Ohio public universities and colleges to offer defined contribution plans to employees as an alternative to participation in the state-mandated defined benefit plans. Under the new plan, employees have participant-directed accounts with participant-selected companies designated by the State that have entered into provider agreements with the College to administer the plan in accordance with plan provisions as adopted by the College. The College contributed \$281,658 and \$262,866 to the Alternative Retirement Plan for the years ended June 30, 2017 and 2016, respectively.

Note 8 - Other Postemployment Benefits

In addition to the pension benefits described in Note 18, School Employees Retirement System (SERS) and State Teachers Retirement System of Ohio (STRS) provide postretirement healthcare coverage. The Ohio Revised Code provides the authority for public employers to fund postretirement health care through their contributions. Information presented herein about the financial activities and position of SERS and STRS has been extracted from information provided to the College by officials of SERS and STRS.

Cincinnati State Technical and Community College

Notes to Financial Statements June 30, 2017 and 2016

Note 8 - Other Postemployment Benefits (Continued)

SERS: SERS coverage is made available to service retirees with 10 or more years of qualifying service credit for disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their healthcare premium. The portion is based on years of services, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below the federal poverty levels. Premiums are reduced by 25 percent for those who apply.

The Health Care Fund was established under and is administered in accordance with Internal Revenue Code §105(e). Each year after the allocation for statutorily required benefits, the retirement board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the years ended June 30, 2017 and 2016, there was no healthcare allocation. For the year ended June 30, 2015, the healthcare allocation was 0.82 percent. An additional healthcare surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, prorated according to service credit earned. State law provides that no employer shall pay a healthcare surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the healthcare surcharge. For fiscal year 2017, the minimum compensation level was established at \$23,500. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, is the total amount assigned to the Health Care Fund. The College had no assigned contributions to healthcare for the years ended June 30, 2017 and 2016. The College's contributions assigned to health care for the year ended June 30, 2015 was \$93,688.

STRS: STRS Ohio provides access to healthcare coverage to eligible retirees who participated in the defined benefit or combined plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs, and reimbursement of monthly Medicare Part B premiums. Pursuant to Chapter 3307 of the Ohio Revised Code, the retirement board has discretionary authority over how much, if any, of the associated healthcare costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the healthcare costs in the form of a monthly premium.

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

Under Ohio law, funding for postemployment health care may be deducted from employer contributions. Effective July 1, 2014, no employer contributions for STRS are being allocated to postemployment healthcare.

Cincinnati State Technical and Community College

Notes to Financial Statements June 30, 2017 and 2016

Note 9 - Compensated Balances

All full-time nonunion and union (SEIU) employees earn 15 days (or 120 hours) of personal and/or sick leave each year. All remaining full-time employees earn 13 days (or 104 hours) of personal and/or sick leave each year. Part-time SEIU employees have sick leave prorated according to their normal work schedule.

Leave days may be accumulated and are absorbed by time off due to illness or injury, or, within certain limitations, paid to the employee upon retirement or termination. The amount paid to an employee upon retirement or termination is limited to one-third of the accumulated leave days up to a maximum payout of 65 days. Full-time employees who are not in the College's American Association of University Professors bargaining unit and were hired on or after March 1, 1990, are entitled to a maximum payout of 30 days. The College has accrued a liability for all sick leave for which payment is deemed probable. This liability is in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*.

At June 30, 2017 and 2016, the liability for personal and/or sick leave was approximately \$718,000.

Contract employees earn 20 days of vacation leave each year. Noncontract employees earn 10 days of vacation leave after one full year of service, 15 days after five years, and 20 days after 10 years. Upon retirement or termination, an employee is entitled to payment for all accrued vacation days up to a maximum of three times the annual vacation leave earned. The College has accrued a vacation liability for all employees equal to amounts earned but not taken up to the maximum. At June 30, 2017 and 2016, the liability for vacation was approximately \$1,483,000 and \$1,659,000, respectively.

Note 10 - Severance

In fiscal year 2016, the College offered a voluntary severance package to employees of the College; 23 employees accepted the package as of June 30, 2016. Under the severance package, employees will receive a base salary amount plus any vacation and sick time earned while employed at the College. Employees that accepted the severance package could be retained by the College up to one year following their acceptance in May 2016. Employees that accepted the severance package are eligible to accrue benefits through their exit date.

As of June 30, 2016, the College accrued \$1,171,482 for the base salary of the employees who accepted the voluntary severance package. All benefits owed to these employees under the severance agreement were accrued within the compensated absences on the statement of net position.

Cincinnati State Technical and Community College

Notes to Financial Statements June 30, 2017 and 2016

Note 10 - Severance (Continued)

In fiscal year 2017, the College did not offer a voluntary severance package to employees and made payments of \$579,924 on the voluntary severance package offered in fiscal year 2016. The outstanding balance at June 30, 2017 for the voluntary severance package was \$591,558.

Note 11 - Grants and Contract

The College receives grants and contracts from certain federal, state, and local agencies. The costs, both direct and indirect, that have been charged to the grant or contract are subject to examination and approval by the granting agency. It is the opinion of the College administration that any disallowance or adjustment of such costs would not have a material effect on the accompanying financial statements.

Note 12 - Operating Leases

The College leases various equipment and facilities under operating leases. Operating lease expense was approximately \$585,000 and \$621,000 for the years ended June 30, 2017 and 2016, respectively. All operating leases ended during fiscal year 2017.

Note 13 - Auxiliary Enterprises

Revenue and expenses of the College's auxiliary enterprises for the years ended June 30, 2017 and 2016 consist of the following:

	Parking	Food Services	Airport	Childcare Center	MCI	CIT Studios	Total
2017							
Revenue	\$ 1,036,986	\$ 860,671	\$ 257,428	\$ 375,482	\$ 582,055	\$ 37,395	\$ 3,150,017
Expenses	795,501	1,106,439	203,326	377,244	855,155	13,293	3,350,958
Excess (deficiency) of revenue over expenses	\$ 241,485	\$ (245,768)	\$ 54,102	\$ (1,762)	\$ (273,100)	\$ 24,102	\$ (200,941)
2016							
Revenue	\$ 1,081,980	\$ 1,033,057	\$ 254,261	\$ 370,346	\$ 601,016	\$ 29,554	\$ 3,370,214
Expenses	849,174	1,256,058	229,038	461,605	929,166	9,205	3,734,246
Excess (deficiency) of revenue over expenses	\$ 232,806	\$ (223,001)	\$ 25,223	\$ (91,259)	\$ (328,150)	\$ 20,349	\$ (364,032)

Cincinnati State Technical and Community College

Notes to Financial Statements June 30, 2017 and 2016

Note 14 - Restricted Net Position

The balances in restricted net position are expendable for use in the following:

	<u>2017</u>	<u>2016</u>
Student loans	\$ -	\$ 3,147
Debt service facility fee	<u>1,018,832</u>	<u>1,151,072</u>
Total restricted expendable net position	<u>\$ 1,018,832</u>	<u>\$ 1,154,219</u>

Note 15 - Risk Management

The College is exposed to various risks of loss related to torts, theft, damage to or destruction of assets, errors and omissions, injuries to employees, employee health claims, unemployment compensation claims, and environmental damage. The College purchases commercial insurance to cover losses. There has been no reduction in insurance coverage. Insurance settlements for claims resulting from risks covered by commercial insurance have not exceeded the insurance coverage in any of the past three years.

Effective January 1, 2016, the College was self-insured for health claims. The College estimates the liability for health claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported. The liability is recorded within other accrued liabilities in the statement of net position. Changes in the estimated liability for fiscal years ended June 30, 2017 and 2016 were as follows:

	<u>Health Claims</u>	
	<u>2017</u>	<u>2016</u>
Unpaid claims - Beginning of year	\$ 364,998	\$ -
Incurred claims, including claims incurred but not reported	5,726,205	2,638,156
Claim payments	<u>(5,644,019)</u>	<u>(2,273,158)</u>
Unpaid claims - End of year	<u>\$ 447,184</u>	<u>\$ 364,998</u>

Note 16 - Pending Litigation

The College is named a party to a number of lawsuits in the normal course of business. In the opinion of management, the resolution of these lawsuits will not have a material adverse effect on the College's financial position or results of operations.

At June 30, 2017 and 2016, the College recorded an accrual of approximately \$201,000 and \$0, respectively, for known arbitration settlements.

Cincinnati State Technical and Community College

Notes to Financial Statements June 30, 2017 and 2016

Note 17 - Component Unit

The College is the sole beneficiary of the Cincinnati State Technical and Community College Foundation (the "Foundation"), a separate, not-for-profit entity governed by a separate board of trustees, organized for the purpose of promoting educational activities. Amounts received by the College from the Foundation in the form of private gifts, grants, and contracts amounted to \$885,116 and \$1,071,316 for the years ended June 30, 2017 and 2016, respectively.

The following is a summary of the Foundation investments at June 30:

	2017	2016
Money market accounts	\$ 1,063,145	\$ 87,837
Equity mutual funds	5,175,818	5,055,444
Fixed-income mutual funds	1,936,727	1,826,919
Real estate mutual funds	49,488	42,125
Alternative strategy mutual funds	221,559	48,920
Total investments	<u>\$ 8,446,737</u>	<u>\$ 7,061,245</u>

The Foundation has the following recurring fair value measurements as of June 30, 2017 and 2016:

Assets Measured at Fair Value on a Recurring Basis as of June 30, 2017

	Balance at June 30, 2017	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Money market mutual fund	\$ 1,017,081	\$ 1,017,081	\$ -	\$ -
Mutual funds - Equity	5,175,818	5,175,818	-	-
Mutual funds - Fixed income	1,936,727	1,936,727	-	-
Mutual funds - Real estate	49,488	49,488	-	-
Mutual funds - Alternative strategy	221,559	221,559	-	-
Total investments by fair value level	<u>\$ 8,400,673</u>	<u>\$ 8,400,673</u>	<u>\$ -</u>	<u>\$ -</u>

Cincinnati State Technical and Community College

Notes to Financial Statements June 30, 2017 and 2016

Note 17 - Component Unit (Continued)

Assets Measured at Fair Value on a Recurring Basis as of June 30, 2016

	Balance at June 30, 2016	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level				
Money market mutual fund	\$ 53,929	\$ 53,929	\$ -	\$ -
Mutual funds - Equity	5,055,444	5,055,444	-	-
Mutual funds - Fixed income	1,826,919	1,826,919	-	-
Mutual funds - Real estate	42,125	42,125	-	-
Mutual funds - Alternative strategies	48,920	48,920	-	-
Total investments by fair value level	<u>\$ 7,027,337</u>	<u>\$ 7,027,337</u>	<u>\$ -</u>	<u>\$ -</u>

As of June 30, 2017 and 2016, there are investments totaling \$46,064 and \$33,908, respectively, that are not considered to be measured at fair value and are excluded from the table.

Details of the Foundation's restricted net assets at June 30 are as follows:

	2017	2016
Temporarily Restricted		
Pledges receivable	\$ 228,205	\$ 424,977
Special purpose funds	2,206,293	1,954,027
Income on endowments	689,462	91,824
Total temporarily restricted	<u>\$ 3,123,960</u>	<u>\$ 2,470,828</u>
Permanently Restricted		
Endowment funds	<u>\$ 5,892,494</u>	<u>\$ 5,248,408</u>

Cincinnati State Technical and Community College

Notes to Financial Statements June 30, 2017 and 2016

Note 18 - Cost-sharing Defined Benefit Pension Plans

Plan Description - The College participates in the State Teachers Retirement System (STRS) and the School Employees Retirement System (SERS), statewide, cost-sharing, multiple-employer defined benefit public employee retirement systems governed by the Ohio Revised Code (ORC) that cover substantially all employees of the College. Each system has multiple retirement plan options available to its members, ranging from three in STRS and one in SERS. Each system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The systems also each provide postemployment healthcare benefits (including Medicare B premiums) to retirees and beneficiaries who elect to receive those benefits.

Each retirement system issues a publicly available financial report that includes financial statements and required supplementary information for the pension and postemployment healthcare plans. The reports may be obtained by contacting:

State Teachers Retirement System of Ohio
275 E. Broad Street
Columbus, Ohio 43215
(888) 227-7877
www.strsoh.org

School Employees Retirement System
300 East Broad Street, Suite 100
Columbus, Ohio 43215
(800) 878-5853
www.ohsers.org

Benefits Provided

STRS - Plan benefits are established under Chapter 3307 of the ORC, as amended by Substitute Senate Bill 342 in 2012, which gives the retirement board the authority to make future adjustments to the member contribution rate, retirement age, and service requirements, and the COLA as the need or opportunity arises, depending on the retirement system's funding progress.

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. Beginning on August 1, 2015, eligibility requirements for an unreduced benefit will change. The maximum annual retirement allowance, payable for life, considers years of credited service, final average salary (three-five years) and multiplying by a factor ranging from 2.2 percent to 2.6 percent with 0.1 percent incremental increases for years greater than 30-31, depending on retirement age.

Cincinnati State Technical and Community College

Notes to Financial Statements June 30, 2017 and 2016

Note 18 - Cost-sharing Defined Benefit Pension Plans (Continued)

A defined benefit plan or combined plan member with five or more years of credited service who is determined to be disabled (illness or injury preventing the individual's ability to perform regular job duties for at least 12 months) may receive a disability benefit. Additionally, eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013 must have at least 10 years of qualifying service credit to apply for disability benefits.

A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the plan. Death benefit coverage up to \$2,000 can be purchased by participants in all three of the plans. Various other benefits are available to members' beneficiaries.

SERS - Plan benefits are established under Chapter 3309 of the ORC, as amended by Substitute Senate Bill 341 in 2012. The requirements to retire depend on years of service (5 to 40 years) and from attaining the age of 60 to 67 (one group does not have an age requirement), depending on when the employee became a member. Member retirement benefits are calculated as final average compensation times years of service times a pension factor ranging from 2.2 percent to 2.5 percent. Members also covered by STRS, Ohio Police and Fire, or Ohio State Highway Patrol have separate considerations in how the benefits are determined.

The Death Benefit Fund pays \$1,000 to a designated beneficiary of a deceased retiree or disability benefit recipient as allowed under ORC Section 3309.50.

Contributions - State retirement law requires contributions by covered employees and their employers, and Chapter 3307 of the Ohio Revised Code (ORC) limits the maximum rate of contributions. The retirement boards of the systems individually set contributions rates within the allowable limits. The adequacy of employer contribution rates is determined annually by actuarial valuation using the entry age normal cost method. Under these provisions, each college's contribution is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance a portion of the unfunded accrued liability.

Member contributions are 10 percent of gross wages for all plans, set at the maximums authorized by the ORC. The plans' 2017 and 2016 contribution rates on covered payroll to each system are as follows:

	Employer Contribution Rate - June 30, 2017			
	Pension	Healthcare	Death Benefits	Total
SERS	13.21 %	0.74 %	0.05 %	14.00 %
STRS	14.00	0.00	0.00	14.00

Cincinnati State Technical and Community College

Notes to Financial Statements June 30, 2017 and 2016

Note 18 - Cost-sharing Defined Benefit Pension Plans (Continued)

	Employer Contribution Rate - June 30, 2016			
	Postretirement			Total
	Pension	Healthcare	Death Benefits	
SERS	12.39 %	1.56 %	0.05 %	14.00 %
STRS	14.00	0.00	0.00	14.00

The College's required and actual contributions to the plans are as follows:

	2017	2016
SERS	\$ 2,185,900	\$ 2,372,568
STRS	3,168,657	3,264,646
Total	\$ 5,354,557	\$ 5,637,214

Payable to the Pension Plan

The College reported a payable of \$345,882 and \$274,337 for the outstanding amount of contributions to the plan required for the years ended June 30, 2017 and 2016, respectively.

Net Pension Liability, Deferrals, and Pension Expense

At June 30, 2017, the College reported a liability for its proportionate share of the net pension liability of STRS and SERS. The net pension liability was measured as of July 1, 2016 for STRS and June 30, 2016 for the SERS. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The College's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating reporting units, actuarially determined.

Plan	Measurement Date	Net Pension Liability		Proportionate Share		Percent Change
		2017	2016	2017	2016	
SERS	June 30	\$ 36,195,370	\$ 30,332,704	0.49453 %	0.53158 %	(0.03705)%
STRS	July 1	70,579,678	65,314,417	0.21086	0.23633	(0.02547)

Cincinnati State Technical and Community College

Notes to Financial Statements June 30, 2017 and 2016

Note 18 - Cost-sharing Defined Benefit Pension Plans (Continued)

For the years ended June 30, 2017 and 2016, the College recognized pension expense of \$5,637,214 and \$6,035,155, respectively. As of June 30, 2017 and 2016, the College reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 3,367,351	\$ -	\$ 3,472,653	\$ -
Changes in assumptions	2,416,239	-	-	-
Net difference between projected and actual earnings on pension plan investments	8,726,283	-	-	(5,831,067)
Changes in proportion and differences between the College contributions and proportionate share of contributions	-	(11,170,100)	-	(5,210,882)
College contributions subsequent to the measurement date	5,354,557	-	5,637,214	-
Total	<u>\$ 19,864,430</u>	<u>\$ (11,170,100)</u>	<u>\$ 9,109,867</u>	<u>\$ (11,041,949)</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30	Amount
2018	\$ (752,133)
2019	(752,133)
2020	3,100,505
2021	1,743,534

In addition, the contributions subsequent to the measurement date will be included as a reduction of the net pension liability in the next year (2018).

Cincinnati State Technical and Community College

Notes to Financial Statements June 30, 2017 and 2016

Note 18 - Cost-sharing Defined Benefit Pension Plans (Continued)

Actuarial Assumptions - The total pension liability based on the results of an actuarial valuation was determined using the following actuarial assumptions for 2016, applied to all periods included in the measurement on June 30, 2017:

	SERS - As of June 30, 2016	STRS - As of July 1, 2016
Valuation date	June 30, 2016	July 1, 2016
Actuarial cost method	Entry age normal	Entry age normal
Cost of living	3.00 percent	2.00 percent
Salary increases, including inflation	3.50 percent - 18.20 percent	2.75 percent - 12.25 percent
Inflation	3.00 percent	2.75 percent
Investment rate of return	7.50 percent, net of investment expense, including inflation	7.75 percent, net of pension plan investment expense
Experience study date	Period of five years ended June 30, 2015	Period of five years ended July 1, 2012
Mortality basis	RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates used. Special mortality tables are used for the period after disability retirement.	RP-2000 Combined Mortality Table (Projection 2022-Scale AA)

Cincinnati State Technical and Community College

Notes to Financial Statements June 30, 2017 and 2016

Note 18 - Cost-sharing Defined Benefit Pension Plans (Continued)

	SERS - As of June 30, 2015	STRS - As of July 1, 2015
Valuation date	June 30, 2015	July 1, 2015
Actuarial cost method	Entry age normal	Entry age normal
Cost of living	3.0 percent	2.0 percent
Salary increases, including inflation	4.0 percent - 22.0 percent	2.75 percent - 12.25 percent
Inflation	3.25 percent	2.75 percent
Investment rate of return	7.75 percent, net of investment expense, including inflation	7.75 percent, net of pension plan investment expense
Experience study date	Period of five years ended June 30, 2010	Period of five years ended July 1, 2012
Mortality basis	1994 Group Annuity Mortality Tables set back one year for both men and women. Special mortality tables are used for the period after disability retirement.	RP-2000 Combined Mortality Table (Projection 2022-Scale AA)

Discount Rate - The discount rates used to measure the total pension liabilities at June 30, 2017 were 7.75 percent and 7.50 percent for STRS and SERS, respectively. The discount rates used to measure the total pension liabilities at June 30, 2016 were 7.75 percent and 7.75 percent for STRS and SERS, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates for all plans. Based on those assumptions, each pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Cincinnati State Technical and Community College

Notes to Financial Statements June 30, 2017 and 2016

Note 18 - Cost-sharing Defined Benefit Pension Plans (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table as of the dates listed below:

Investment Category	STRS - July 1, 2016		Investment Category	SERS - June 30, 2016	
	Target Allocation	Long-term		Target Allocation	Long-term
		Expected Real Rate of Return			Expected Real Rate of Return
Domestic equity	31.00 %	5.50 %	Cash	1.00 %	0.50 %
International equity	26.00	5.35	U.S. stocks	22.50	4.75
Alterations	14.00	5.50	Non-U.S. stocks	22.50	7.00
Fixed income	18.00	1.25	Fixed income	19.00	1.50
Real estate	10.00	4.25	Private equity	10.00	8.00
Liquidity reserves	1.00	0.50	Real estate	15.00	5.00
Total	<u>100.00 %</u>		Multi-asset strategies	10.00	3.00
			Total	<u>100.00 %</u>	

Investment Category	STRS - July 1, 2015		Investment Category	SERS - June 30, 2015	
	Target Allocation	Long-term		Target Allocation	Long-term
		Expected Real Rate of Return			Expected Real Rate of Return
Domestic equity	31.00 %	5.50 %	Cash	1.00 %	0.00 %
International equity	26.00	5.35	U.S. stocks	22.50	5.50
Alterations	14.00	5.50	Non-U.S. stocks	22.50	5.50
Fixed income	18.00	1.25	Fixed income	19.00	1.50
Real estate	10.00	4.25	Private equity	10.00	10.00
Liquidity reserves	1.00	0.50	Real estate	10.00	5.00
Total	<u>100.00 %</u>		Hedge funds	15.00	7.50
			Total	<u>100.00 %</u>	

Sensitivity of the Net Pension Liability to Changes in the Discount Rate - The following presents the net pension liability of the College, calculated using the discount rate listed below, as well as what the College's net pension liability would be if it were calculated using a discount rate that is 1.00 percentage point lower or 1.00 percentage point higher than the current rate:

Plan	1.00 Percent Decrease	Current Discount Rate	1.00 Percent Increase
SERS	6.50 % \$ 47,920,414	7.50 % \$ 36,195,370	8.50 % \$ 26,381,020
STRS	6.75 <u>93,794,657</u>	7.75 <u>70,579,678</u>	8.75 <u>50,996,475</u>
	<u>\$ 141,715,071</u>	<u>\$ 106,775,048</u>	<u>\$ 77,377,495</u>

Cincinnati State Technical and Community College

Notes to Financial Statements June 30, 2017 and 2016

Note 18 - Cost-sharing Defined Benefit Pension Plans (Continued)

Pension Plan Fiduciary Net Position - Detailed information about the plan's fiduciary net position is available in separately issued STRS and SERS financial reports.

Assumption Changes - During the current measurement period, the SERS boards adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.50 percent, which increased the College's respective net pension liability.

Changes Between Measurement Date and Report Date - In March 2017, the STRS Board adopted certain assumption changes that will impact its annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to the College's net pension liability is expected to be significant.

Required Supplementary Information

Cincinnati State Technical and Community College

Required Supplementary Information

Schedule of College's Proportionate Share of the Net Pension Liability - STRS

	2017	2016	2015
College's proportion of the collective STRS net pension liability:			
As a percentage	0.21086%	0.23633%	0.25507%
Amount	\$ 70,579,678	\$ 65,314,417	\$ 62,041,175
College's covered-employee payroll	\$ 21,011,026	\$ 21,959,793	\$ 25,221,804
College's proportionate share of the collective pension liability (amount), as a percentage of the College's covered-employee payroll	335.92%	297.43%	245.98%
STRS fiduciary net position as a percentage of the total pension liability	66.78%	72.09%	74.71%

Schedule of College's Contributions - STRS

	2017	2016	2015
Statutorily required contribution	\$ 3,106,046	\$ 3,451,976	\$ 3,648,515
Contributions in relation to the actuarially determined contractually required contribution	\$ 3,168,657	\$ 3,264,646	\$ 3,395,926
Contribution (excess) deficiency	\$ (62,611)	\$ 187,330	\$ 252,589
Covered employee payroll	\$ 21,011,026	\$ 21,959,793	\$ 25,221,804
Contributions as a percentage of covered employee payroll	15.08%	14.87%	13.46%

Schedule of College's Proportionate Share of the Net Pension Liability - SERS

	2017	2016	2015
College's proportion of the collective SERS net pension liability:			
As a percentage	0.49453%	0.53158%	0.55248%
Amount	\$ 36,195,370	\$ 30,332,704	\$ 27,960,496
College's covered-employee payroll	\$ 14,835,752	\$ 15,350,046	\$ 16,003,028
College's proportionate share of the collective pension liability (amount), as a percentage of the College's covered-employee payroll	243.97%	197.61%	174.72%
SERS fiduciary net position as a percentage of the total pension liability	62.98%	69.16%	71.70%

Schedule of College's Contributions - SERS

	2017	2016	2015
Statutorily required contribution	\$ 2,150,177	\$ 2,240,484	\$ 2,247,542
Contributions in relation to the actuarially determined contractually required contribution	\$ 2,185,900	\$ 2,372,568	\$ 2,242,817
Contribution (excess) deficiency	\$ (35,723)	\$ (132,084)	\$ 4,725
Covered employee payroll	\$ 14,835,752	\$ 15,350,046	\$ 16,003,028
Contributions as a percentage of covered employee payroll	14.73%	15.46%	14.01%

Cincinnati State Technical and Community College

Required Supplementary Information

Notes to Required Supplementary Information for the Years Ended June 30, 2017 and 2016

Changes of Benefit Terms - There were no changes in benefit terms affecting the STRS and SERS plans for the plan years ended June 30, 2016 and 2015.

Changes of Assumptions (SERS) - During the plan year ended June 30, 2016, there were changes to several assumptions for SERS. The wage inflation dropped from 3.75 percent to 3.25 percent. The projected salary increase range changed from 4.25-10.05 percent to 3.50-18.20 percent. The mortality tables used changed from RP-2000 to RP-2014.

Changes of Assumptions (STRS) - There were no changes in assumptions affecting STRS for the plan year ended June 30, 2016.

Supplemental Information

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*

Independent Auditor's Report

To Management and the Board of Trustees
Cincinnati State Technical and Community College

We have audited, in accordance with the 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, the financial statements of Cincinnati State Technical and Community College (the "College") and its discretely presented component unit as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the College's basic financial statements, and have issued our report thereon October 10, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Cincinnati State Technical and Community College's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control. Accordingly, we do not express an opinion on the effectiveness of the College's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control as Findings 2017-001 and 2017-002 that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the College's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 2017-001 and 2017-002 to be material weaknesses.

To Management and the Board of Trustees
Cincinnati State Technical and Community College

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cincinnati State Technical and Community College's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and 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*.

Cincinnati State Technical and Community College's Responses to Findings

Cincinnati State Technical and Community College's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Cincinnati State Technical and Community College's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the College's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the College's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Plante & Moran, PLLC

October 10, 2017

Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance

Independent Auditor's Report

To the Board of Trustees
Cincinnati State Technical and Community College

Report on Compliance for Each Major Federal Program

We have audited Cincinnati State Technical and Community College's (the "College") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017. Cincinnati State Technical and 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.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Cincinnati State Technical and Community College's major federal programs based on our audit of the types of compliance requirements referred to above.

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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance 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 Cincinnati State Technical and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Cincinnati State Technical and Community College's compliance.

To the Board of Trustees
Cincinnati State Technical and Community College

Opinion on Each Major Federal Program

In our opinion, Cincinnati State Technical and Community College complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of Cincinnati State Technical and Community College is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Cincinnati State Technical and Community College's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Findings 2017-003 and 2017-004, that we consider to be significant deficiencies.

Cincinnati State Technical and Community College's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and/or corrective action plan. Cincinnati State Technical and Community College's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on them.

To the Board of Trustees
Cincinnati State Technical and Community College

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Plante & Morse, PLLC

October 10, 2017

Cincinnati State Technical and Community College

Schedule of Expenditures of Federal Awards Year Ended June 30, 2017

Federal Grant/Program Title	Federal CFDA	Pass-Through Identifying Number	Total Amount Provided to Subrecipients	Federal Expenditures
CLUSTERS:				
STUDENT FINANCIAL ASSISTANCE CLUSTER				
Department of Education				
Federal Supplemental Educational Opportunity	84.007	N/A	\$	515,918
Federal Work-Study Program	84.033	N/A		301,247
Federal Pell Grant Program	84.063	N/A		9,573,092
Federal Direct Student Loans	84.268	N/A		<u>18,749,420</u>
Total Student Financial Assistance Cluster				29,139,677
RESEARCH AND DEVELOPMENT CLUSTER				
National Science Foundation				
Passed through Ohio State University - Midwest Photonics Education Center	47.076	60042097-CSTCC		20,483
Passed through Indian Hills Community College - Louis Stokes Alliance for Minority Participation	47.076	20-3-9557-44		26,569
Passed through University of Cincinnati - Expert Clinically-Based Teacher Educators	47.076	010186-003		<u>21,399</u>
Total Research and Development Cluster				68,451
TRIO CLUSTER				
TRIO Student Support Services	84.042A	N/A		255,483
TRIO Upward Bound Traditional	84.047A	N/A		209,828
TRIO Educational Opportunity Centers	84.066	N/A		210,739
TRIO Upward Bound Veterans	84.047V	N/A		<u>256,779</u>
Total TRIO Cluster				932,829
MEDICAID CLUSTER				
Department of Health and Human Services				
Passed through Wright State University - MEDTAPP Scholarship	93.778	G-1415-07-0060		6,000
OTHER PROGRAMS:				
DEPARTMENT OF LABOR				
Passed through Lorain Community College: Trade Adjustment Assistance Community College and Career Training Grants Program	17.282	TC-26435-14-60-A-39		139,738
Trade Adjustment Assistance Community College and Career Training Grants Program	17.282	N/A		<u>1,433,029</u>
Total Department of Labor				1,572,767
DEPARTMENT OF AGRICULTURE				
Ohio USDA Child Nutrition Program	10.558	N/A		2,665
DEPARTMENT OF TRANSPORTATION				
Airport Improvement Program	20.106	N/A		25,230
DEPARTMENT OF EDUCATION				
Career and Technical Education - Basic Grants to States	84.048	N/A		240,788
Passed through University of Cincinnati - Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)	84.334A	P000-030-J617		<u>3,900</u>
Total Department of Education				244,688
National Aeronautics And Space Administration				
Passed through Ohio Aerospace Institute - Ohio Space Grant Consortium	43.008	NNX14AR49A		17,751
DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through the Chafee Education and Training Vouchers Program (ETV) - Education Training Voucher Program Foster Care	93.599	G-89-06-1215		<u>14,537</u>
Total federal awards			<u>\$ -</u>	<u>\$ 32,024,595</u>

See Notes to Schedule of Expenditures
of Federal Awards.

Cincinnati State Technical and Community College

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2017

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Cincinnati State Technical and Community College (the "College") under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the College, it is not intended to and does not present the financial position, changes in net position, or cash flows of the College.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-21, *Cost Principles for Educational Institutions*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

The College has not elected to use the 10 percent *de minimus* indirect cost rate to recover indirect costs as allowed under the Uniform Guidance.

Note 3 - Adjustments and Transfers

As allowable and in accordance with federal regulations issued by the U.S. Department of Education, in the fiscal year ended June 30, 2017, the College carried back \$29,749 of Federal Supplemental Education Opportunity Grant (FSEOG) program fund (84.007) of 2016-2017 funds carried forward to be spent in 2017-2018.

During the year ended June 30, 2017, the College transferred \$74,374 of the 2016-2017 Federal Work Study program (84.003) award to FSEOG program (84.007).

Cincinnati State Technical and Community College

Schedule of Findings and Questioned Costs Year Ended June 30, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516 (a)? Yes No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.007, 84.033, 84.063, 84.268	Student Financial Assistance Cluster
84.042, 84.047, 84.066	TRIO Cluster

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes No

Cincinnati State Technical and Community College

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2017

Section II - Financial Statement Audit Findings

Reference Number	Finding
2017-001	<p>Finding Type - Material weakness</p> <p>Criteria - Change management procedures exist to ensure that master file changes are documented, authorized by management, and, when appropriate, user testing is completed (system change includes implementation of a new application module or implementation of a new accounting system).</p> <p>Condition - The College has change management policies and procedures to document, test, review, approve, and implement known changes to the system; however, the College does not review a system-generated log or report of all changes to the system to ensure each change followed policy.</p> <p>Context - The review of internal controls, policies, and procedures surrounding the IT environment determined that the College does not review a system-generated log or report of all changes to the system to ensure each change was in accordance with policy. There is a possibility that a change could be authorized and implemented outside the change management process due to the segregation of duties noted in Finding 2017-002.</p> <p>Cause - Processes are not in place to review a system-generated log or report of all changes to the system to ensure each change was in accordance with policy.</p> <p>Effect - The lack of policies and procedures could lead to a misstatement in the financial statements due to master file changes that did not follow change management policies and procedures.</p> <p>Recommendation - We recommend that the College review a system-generated log or report of all changes to the system to ensure changes are appropriate and reasonable.</p> <p>Views of Responsible Officials and Planned Corrective Actions - A new process will be created. Each month, the change management council will review all changes to custom code in colleague production for that month. That list will be compared with the list of expected changes that are documented in the Change Management Process. Any change to a custom code in colleague production that does not have a corresponding change management process will be identified. This will show all changes that were made to colleague production without the knowledge of the change management council.</p>

Cincinnati State Technical and Community College

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2017

Section II - Financial Statement Audit Findings (Continued)

Reference Number	Finding
2017-002	<p>Finding Type - Material weakness</p> <p>Criteria - Segregation of duty controls provide a separation of users with access to program source code from users that have the ability to make or implement changes into the production environment.</p> <p>Condition - The College does not have appropriate segregation of duties for certain individuals that have access to both the source code and the ability to implement source code changes.</p> <p>Context - During the audit, a review of internal controls, policies, and procedures surrounding the IT environment identified a lack segregation of duties between certain individuals with access to the source code and also the ability to implement source code changes.</p> <p>Cause - There is a lack of segregation of duties between having access to the source code and the ability to implement source code changes for certain individuals.</p> <p>Effect - The lack of segregation of duties could lead to a misstatement in the financial statements due to the same individual accessing the source code and also implementing changes.</p> <p>Recommendation - We recommend that the College implement appropriate segregation of duties between having access to the source code and the ability to implement source code changes.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The ITS Department has gone through significant re-organization over the past year. The segregation of duties will be addressed by the following: the colleague admin who moves changes to colleague production will be moved to the Enterprise and Infrastructure team by January 1, 2018.</p>

Cincinnati State Technical and Community College

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2017

Section III - Federal Program Audit Findings

Reference Number	Finding
2017-003	<p>CFDA Number, Federal Agency, and Program Name - Student Financial Assistance Cluster: Federal Supplemental Educational Opportunity - CDFA #84.007, Federal Work-Study Program - CDFA #84.003, Federal Pell Grant Program - CDFA #84.063, Federal Direct Student Loans - CDFA #84.268</p> <p>Federal Award Identification Number and Year - N/A</p> <p>Pass-through Entity - None</p> <p>Finding Type - Significant deficiency</p> <p>Repeat Finding - No</p> <p>Criteria - When a recipient of a Title IV grant or loan fund withdraws, the amount of Title IV grant or loan assistance earned by the student must be determined. Any unearned Title IV funds must be returned to the applicable Title IV program within 45 days of the date the College determined the student withdrew (34 CFR 668.22).</p> <p>Condition - While the College has a process in place to identify students in need of a necessary return of Title IV calculation, the current process did not ensure accurate inputs were used in the calculation.</p> <p>Questioned Costs - Known total questioned costs amount to \$149.</p> <p>Identification of How Questioned Costs Were Computed - Total questioned costs are composed of \$149 that was not returned to the Department of Education in a timely manner.</p> <p>Context - Out of 25 students selected for testing, one student's return of Title IV calculation was incorrect.</p> <p>Cause and Effect - The College was completing return calculations timely; however, the calculation did not accurately include the appropriate loans for one student. This caused the return of funds by the College to be lower than expected by \$149 of Pell loans.</p> <p>Recommendation - We recommend the College implement adequate review procedures to ensure proper return of Title IV calculations.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The College has identified a query to assist with the Return of Title IV process. This query will be outlined and included in and run along with the current process to ensure all students' award amounts that the student may be eligible or ineligible to receive be included or excluded in the overall calculation to ensure accurate results.</p>

Cincinnati State Technical and Community College

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2017

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2017-004	<p>CFDA Number, Federal Agency, and Program Name - TRIO Cluster - Upward Bound - CDFA #84.047V</p> <p>Federal Award Identification Number and Year - P047V120065 - 2015-2016</p> <p>Pass-through Entity - None</p> <p>Finding Type - Significant deficiency</p> <p>Repeat Finding - No</p> <p>Criteria - Not less than two-thirds of the project's participants must be low-income individuals who are potential first-generation college students. The remaining participants must be either low-income individuals or potential first-generation college students or individuals who have a high risk of academic failure (34 CFR section 645.21 and 645.6).</p> <p>Condition - The College submitted the annual performance report and served 60 percent low-income individuals who are potential first-generation participants. This is below the required two-thirds threshold.</p> <p>Questioned Costs - None</p> <p>Identification of How Questioned Costs Were Computed - N/A</p> <p>Context - The listing of all students receiving benefits from the Upward Bound - Veterans program was reviewed. The students were coded as (1) low-income and first-generation, (2) low-income only, (3) first-generation only, (4) high risk for academic failure only, (5) low-income and at high risk for academic failure, (6) first generation and at high risk for academic failure, (7) low-income, first generation, and at high risk for academic failure, or (0) unknown. The submitted reports were completed from this information.</p> <p>Cause and Effect - Participant data appears to be tracked adequately and maintained; however, it appears controls do not exist to ensure that the program has the appropriate required mix of participants.</p> <p>Recommendation - We recommend the College implement adequate review procedures to ensure that each TRIO program is compliant with the earmarking requirements.</p>

Cincinnati State Technical and Community College

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2017

Section III - Federal Program Audit Findings (Continued)

Reference Number	Finding
2017-004 (Con't)	Views of Responsible Officials and Planned Corrective Actions - The Upward Bound Veteran Program (Upward Bound) will review and monitor its intake and applicant process to ensure that the College meets the threshold of the appropriate mix of participants. As new participants are recruited, this data will be reviewed for compliance with the two-thirds threshold for low-income individuals who are potential first generation participants. The assistant director for Upward Bound will make the initial assessment for this program requirement and then a second review will be conducted by the project director.

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Dave Yost • Auditor of State

*****CINCINNATI STATE TECHNICAL 5 B8 COMMUNITY COLLEGE

HAMILTON 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
NOVEMBER 9, 2017