

**CINCINNATI STATE TECHNICAL
AND COMMUNITY COLLEGE**

**REPORT ON AUDIT OF INSTITUTION
OF HIGHER EDUCATION
IN ACCORDANCE WITH OMB CIRCULAR A-133
June 30, 2005**



**Auditor of State
Betty Montgomery**

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

We have reviewed the *Independent Auditor's Report* of Cincinnati State Technical and Community College, Hamilton County, prepared by Crowe Chizek and Company LLC, for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

November 28, 2005

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CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS

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 years ended June 30, 2005, with selected comparative information for the year ended June 30, 2004. 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.

Cincinnati State is a public, two-year college operating under the authority of the Ohio Board of Regents. Governed by a nine-member Board of Trustees, 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. Cincinnati State is fully accredited by the North Central Association of Colleges and Schools (NCA) and holds numerous programmatic accreditations.

The College is currently participating in the Academic Quality Improvement Program (AQIP), an 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.

Cincinnati State 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 and three extension sites, Harrison, Evendale and Warren County, as well as several regional sites located in schools, non-profit agencies and organizations. Distance learning courses enroll students from outside and within the geographic region. At Cincinnati State 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 Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. These statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles. The College follows GASB Statement 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, as amended by GASB Statements 37 and 38. 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 asset categories.

STATEMENT OF NET ASSETS

The statement of net assets presents the financial position of the College at the end of the fiscal year. Net assets represent the difference between total assets and total liabilities. Net assets indicate the overall financial condition of the College, while the change in net assets 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, liabilities and net assets at June 30 follows (in thousands):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
ASSETS			
Cash, cash equivalents and investments	\$ 4,793	\$ 16,872	\$ 46,513
Accounts receivable, net	7,014	6,348	3,867
Other assets	1,211	845	1,081
Capital assets, net	<u>96,746</u>	<u>87,193</u>	<u>54,325</u>
Total assets	<u>109,764</u>	<u>111,258</u>	<u>105,786</u>
LIABILITIES			
Accounts payable and accrued expenses	7,193	7,279	6,207
Deferred revenue	3,355	2,860	2,312
Debt	<u>48,942</u>	<u>49,083</u>	<u>49,173</u>
Total liabilities	<u>59,490</u>	<u>59,222</u>	<u>57,692</u>
NET ASSETS			
Invested in capital assets, net of related debt	46,365	50,052	44,848
Restricted	218	341	459
Unrestricted	<u>3,691</u>	<u>1,643</u>	<u>2,787</u>
Total net assets	<u>\$ 50,274</u>	<u>\$ 52,036</u>	<u>\$ 48,094</u>

Assets

Cash and investments make up 4.4%, 15% and 44% of total assets at June 30, 2005, 2004 and 2003, respectively. The significant decrease in 2005 is the result of spending \$9.2 million of bond proceeds for the construction of the Advance Technology and Learning Center (ATLC). Cash includes bank deposits, overnight sweep investments and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio) and other bank certificates of deposit.

Accounts receivable make up 6.4%, 5.7% and 3.7% of the total assets at June 30, 2005, 2004 and 2003, respectively. The single major increase in accounts receivable is attributable to a \$1.2 million increase in student receivables resulting primarily from increased enrollment. In 2004, state appropriations included funding for capital projects. Accounts receivable include (*in thousands*):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Grants	\$ 2,495	\$ 1,169	\$ 1,078
State appropriations	112	1,161	18
Student and other operating receivables	6,663	5,324	3,420
Allowance for doubtful accounts	<u>(2,256)</u>	<u>(1,306)</u>	<u>(649)</u>
	<u>\$ 7,014</u>	<u>\$ 6,348</u>	<u>\$ 3,867</u>

Capital assets, net of depreciation, make up 88.1%, 78.4% and 51.4% of the total assets at June 30, 2005, 2004 and 2003, respectively. The ATLC was completed in the fall of 2004 and \$50.2 million was capitalized. The parking garage was completed in the fall of 2003 and \$11 million was capitalized. These facilities are financed primarily by College facilities bonds issued in fiscal year 2003 totaling \$47,580,000.

Other assets include prepaid expenses and cafeteria inventory.

Liabilities

Liabilities of \$7.2 million consist of accounts payable and accrued expenses primarily for wages, benefits, supplies and utilities and \$3.4 million of deferred revenue for summer-term classes, which is recognized in fiscal year 2006 when the majority of the term occurs.

The College issued bonds in fiscal year 2003 in the amount of \$47,580,000 for the construction of the ATLC and parking garage. The bonds are due to mature in the year 2029.

Net Assets

Invested 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 assets are subject to externally imposed stipulations that they 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 assets are expendable. Unrestricted net assets are 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 assets are allocated for academic and capital programs and initiatives.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses and Changes in Net Assets present both the operating results and the nonoperating revenues and expenses of the College. State appropriations, while budgeted for operations, are considered nonoperating revenues. A summarized comparison for the years ended June 30 follows (*in thousands*):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
REVENUES			
Tuition and fees, net	\$ 16,579	\$ 12,975	\$ 12,291
Grants and contracts	13,406	11,658	11,082
Sales and services	1,643	1,878	2,018
Auxiliary services	2,051	1,540	1,400
Other operating and nonoperating revenue and gifts	1,181	2,115	894
State instructional appropriations	23,404	20,337	19,659
State capital appropriations	<u>1,271</u>	<u>7,235</u>	<u>2,309</u>
Total revenues	<u>59,535</u>	<u>57,738</u>	<u>49,653</u>
EXPENSES			
Instruction	24,137	22,383	21,878
Public support	1,679	2,088	2,718
Academic support	3,581	3,440	3,549
Student services	5,343	4,908	4,312
Institutional support	11,511	10,685	11,547
Operations and maintenance of plant	5,059	4,007	3,982
Depreciation	4,758	3,769	3,781
Scholarships	852	1,064	1,123
Auxiliary services	1,973	1,452	1,337
Interest on capital asset related debt	<u>2,404</u>	<u>-</u>	<u>-</u>
Total expenses	<u>61,297</u>	<u>53,796</u>	<u>54,227</u>
(Decrease) increase in net assets	(1,762)	3,942	(4,574)
Net assets - beginning of year	<u>52,036</u>	<u>48,094</u>	<u>52,668</u>
Net assets - end of year	<u>\$ 50,274</u>	<u>\$ 52,036</u>	<u>\$ 48,094</u>

Revenues

State appropriations comprising state instructional subsidy and access challenge funding increased by \$3.1 million, or 15%, compared to fiscal year 2004.

State capital appropriations decreased by \$6.0 million in fiscal year 2005. The amount of capital appropriations used varies from year to year depending on the number of projects undertaken and completion of the projects during each year.

Student tuition and fees are reported net of scholarship allowance. Instructional revenues for fiscal year 2005 increased by \$5.2 million, or 24%, over fiscal year 2004 as a result of increased enrollment of approximately 4% and a 9.9 % tuition rate increase. Financial aid in the form of grants and scholarships increased by \$1.6 million, or 18.4%, in 2005. The effect of netting the scholarship allowances against the instructional revenues resulted in a net increase in tuition and fees of \$3.6 million.

Sales and services revenue consists primarily of workforce development job skills training. A decline in activity in the areas of health, transportation and business management accounted for a decrease in sales and services revenues of \$458,000. However, non-credit revenues through the College's community outreach, environmental health and safety and industrial maintenance programs generated an increase of approximately \$223,000. Overall, sales and services revenues decreased by \$235,000, or 12.5%

Auxiliary services revenues consist of parking, cafeteria sales, childcare center and airport rental fees and fuel sales. Parking revenues and cafeteria sales represent approximately 76% of the fiscal year 2005 total auxiliary services revenues of \$2.1 million. The increase of \$511,000, or 33.2%, over fiscal year 2004 comprises an increase in cafeteria revenues of \$82,000 as a result of opening a new cafeteria. In addition, the college assumed operation of the childcare center in fiscal year 2005, which generated new revenue of \$280,000.

Expenses

Expenses for Fiscal Year 2005 increased by \$7.5 million, or 13.9%, over fiscal year 2004. The change derives primarily from the following seven functional categories of expense.

Instructional expenses increased by \$1.8 million or 7.8%. Increased spending for adjunct instructors, instructional overload and special units arises from the increases in enrollment and credit hours.

Student services expenses increased by \$435,000, or 8.9%, as a result of needs generated by the increase in enrollment.

Institutional support expenses increased by \$681,000, or 6.4%, as a result of principal and interest payments on bond debt.

Operation and maintenance of plant expenses increase by \$1.0, million or 25.0%, as a result of opening and operating a new building.

Depreciation expense increased by \$989,000, or 26.2%, as a result of the depreciation related to the new ATLC building and equipment.

Public service expenses decreased by \$409,000, or 19.6%, primarily as a result of eliminating or consolidating Workforce Development Center programs.

The major portion of the increase in auxiliary services expenses of \$521,000, or 35.9%, was a result of opening a new cafeteria and operating the childcare center.

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 statements of cash flows for the years ended June 30 follows (*in thousands*):

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net cash from operating activities	\$ (20,165)	\$ (24,906)	\$ (17,820)
Net cash flows provided by non-capital financing activities	23,404	20,337	19,658
Net cash flows from capital and related financing activities	(15,513)	(25,124)	39,603
Net cash flows provided (used) by investing activities	<u>195</u>	<u>2,764</u>	<u>(2,637)</u>
Net (decrease) increase in cash and cash equivalents	(12,079)	(26,929)	38,804
Cash and cash equivalents, beginning of year	<u>16,872</u>	<u>43,801</u>	<u>4,997</u>
Cash and cash equivalents, end of year	<u>\$ 4,793</u>	<u>\$ 16,872</u>	<u>\$ 43,801</u>

The \$12.1 million decrease in net cash flows results primarily from cash outflows for the construction of the Advanced Technology and Learning Center, a capital project financed primarily from bonds issued in fiscal year 2003.

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

State appropriations are the primary source of non-capital financing activities. GASB Statement 35 requires that we reflect this source of revenue as nonoperating even though the College's budget depends on this to continue the current levels of operations. Had these resources been reported as operating revenue, the net cash used in operating activities would have been a surplus of \$235,000 in 2005, a deficit of \$4.6 million in 2004 and a surplus of \$1.8 million in 2003.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Capital assets, net of accumulated depreciation, totaled \$96.7 million at June 30, 2005, an increase of \$9.5 million. Significant changes to capital assets during fiscal year 2005, included (*in millions*):

Buildings and improvements	\$ 50.7
Equipment and library collections	(.1)
Net change in construction in progress	(36.7)
Increase in accumulated depreciation	<u>(4.4)</u>
Total	<u>\$ 9.5</u>

Construction in progress at June 30, 2004, of \$36.7 million consisted of the Advance Technology and Learning Center (ATLC), which was capitalized in fiscal year 2005.

Debt

At June 30, 2005, bonds payable, including the bond premium, amounting to \$48.9 million consisted of the General Receipts Bonds, Series 2002, for the ATLC and parking garage.

Long-term debt decreased by \$141,000, which comprises the annual principal payment and the annual amortization of the \$1.5 million premium on the General Receipts Bonds.

ECONOMIC IMPACT ON FUTURE OPERATIONS

The most significant economic issue for the College is the impact of the weak U.S. economy on the economy of Ohio, which has resulted in reductions in state support for the College. The State of Ohio appropriations represent 41% of the College's total revenue sources. The 4.8% decrease in State instructional subsidy per full-time equivalent student over the past three fiscal years has exerted significant cost pressures, despite the fact that enrollment has steadily increased. In fiscal year 2005 the College was able to offset the losses in state funding through tight fiscal management, by exercising extensive cost-cutting and cost-saving measures, and by entering into new partnerships. While these measures continue, the Board of Trustees approved a 6% increase in tuition and fees effective summer term 2005 in anticipation of further reductions in state funding.

Despite decreases in state funding, the College must continue to position for its vital role in the economic future of the region. To that end, the College has created task forces for enrollment and for retention. The work of these two groups has resulted in the creation of a student services web site, more frequent and informative student orientations, enhanced delivery of financial aid, increased recruiting of non-traditional students, the addition of student activities including clubs and student organizations, more collaborative relationships among student-service organizations, and the provision of a childcare center.

The College continues to build new and enhance existing academic programs and seek efficiencies in an increasingly competitive environment. Strategies involve increased workload controls, ongoing program review and evaluation, development of a program cost model, limited new hiring by shifting resources to match growth, and maximizing revenue generation from instruction with course fees. Other key strategies at Cincinnati State ensure quality in what we do including implementing academic standards, achieving the highest level of program accreditation, and attaining national average or above average student pass rates for professional licensure. Partnerships with organizations such as OhioLINK, the University of Cincinnati, Knowledge Works, and Wilmington College have allowed us to expand programs and services. Our newest facility, the Advanced Technology and Learning Center (ATLC), has provided general classrooms and instructional laboratories to allow growth in the Business, Health & Public Safety, Humanities, Sciences, and Engineering Technologies divisions.

Additionally, the College is committed to the Academic Quality Improvement Program, a North Central Association of Colleges and Schools program based on the Malcolm Baldrige National Award principles for organizational quality management. Through continuous quality improvement, which is vital to the long-term growth of the College, the College is striving for greater efficiencies in operational areas, a greater understanding of all of our stakeholders and building collaborative relationships.

Technology has a significant impact on the College's competitive position, on the quality of academic programs and on administrative efficiencies. The College's third-party information technology provider continues to make significant progress in instructional support, administrative computing, networking and infrastructure enhancements and user support. Being a community and a technical college, management is fully committed to the financial support of these endeavors.

The College was able to implement cost saving measures in its health insurance benefit plan through successful negotiations with its two major employee bargaining units. The introduction of modest premium sharing coupled with plan design changes that raised deductibles resulted in a sharp decline in what had been an unacceptably high utilization rate. The effect on premium increases has been dramatic. Whereas premiums increased nearly 20% with the 2004 policy renewal, the 2005 renewal contained a 7% increase. The coverage provided remains one of the best packages available.

The College is also reviewing its method of compensating administrative employees, combining performance with market factors. Until such time as market-related gaps are rectified, this may result in some additional expenditure on administrative salaries over the next three to five years.

Finally, with energy costs continuing to escalate, the College is conducting a formal review of its energy consumption. The data from the study will be incorporated into the short- and long-range strategic planning process, resulting in new initiatives that will reduce energy costs.

Looking forward, the College is positioned to maintain its financial condition through growing enrollments, through new financial resources including partnerships and private gifts, by containing and sharing health care costs, and by continuing to successfully control costs through firm fiscal management.



Crowe Chizek and Company LLC
Member Horwath International

To the Board of Trustees of
Cincinnati State Technical and Community College
Cincinnati, Ohio

We have audited the accompanying financial statements of the business-type activities of Cincinnati State Technical and Community College (the College), a component unit of the State of Ohio, as of and for the year ended June 30, 2005 and 2004, which comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the College, as of June 30, 2005 and 2004, and its changes in net assets and cash flows, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 12, 2005, on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing results of our audit.

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

The Management's Discussion and Analysis (MD&A) on pages 2 to 9 is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplemental information. However, we did not audit the information and express no opinion on it.

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Columbus, Ohio
September 29, 2005

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,785,731	\$ 7,636,867
Accounts receivable, net	7,013,802	6,347,874
Inventories	22,255	15,056
Prepaid and other assets	566,319	97,247
Total current assets	<u>12,388,107</u>	<u>14,097,044</u>
Noncurrent assets		
Cash and cash equivalents	7,261	9,235,557
Notes receivable, net	143,921	222,323
Other assets	478,878	509,603
Capital assets, net	96,746,113	87,192,979
Total noncurrent assets	<u>97,376,173</u>	<u>97,160,462</u>
Total assets	<u>109,764,280</u>	<u>111,257,506</u>
LIABILITIES		
Current liabilities		
Accounts payable	1,525,048	2,220,380
Accrued liabilities		
Wages	1,380,932	1,041,240
Compensated absences	3,123,887	2,959,441
Other	502,711	456,632
Interest	661,089	601,223
Deferred revenue	3,354,766	2,860,120
Current portion of long-term debt	140,546	140,592
Total current liabilities	<u>10,688,979</u>	<u>10,279,628</u>
Long-term debt	<u>48,801,370</u>	<u>48,941,916</u>
Total liabilities	<u>59,490,349</u>	<u>59,221,544</u>
NET ASSETS		
Invested in capital assets, net of related debt	46,365,734	50,051,696
Restricted	218,101	340,785
Unrestricted	3,690,096	1,643,481
Total net assets	<u>\$ 50,273,931</u>	<u>\$ 52,035,962</u>

See accompanying notes to financial statements.

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
REVENUES		
Operating revenues		
Student tuition and fees, net of scholarships and student financial aid of \$10,326,234 and \$8,720,946 in 2005 and 2004, respectively	\$ 16,578,773	\$ 12,974,907
Federal grants and contracts	9,555,924	8,212,074
State and local grants and contracts	3,276,206	3,113,059
Nongovernmental grants and contracts	574,389	333,405
Sales and services of educational departments	1,643,434	1,877,703
Auxiliary enterprises	2,051,147	1,539,826
Other operating revenues	<u>887,400</u>	<u>808,676</u>
Total operating revenues	<u>34,567,273</u>	<u>28,859,650</u>
EXPENSES		
Operating expenses		
Instructional	24,136,481	22,382,807
Public support	1,678,627	2,088,236
Academic support	3,581,211	3,440,122
Student services	5,342,841	4,908,365
Institutional support	11,511,187	10,684,791
Plant operation and maintenance	5,059,068	4,006,701
Scholarships and student financial aid	852,194	1,064,493
Auxiliary enterprises	1,973,124	1,451,746
Depreciation	<u>4,758,045</u>	<u>3,768,548</u>
Total operating expenses	<u>58,892,778</u>	<u>53,795,809</u>
Operating loss	(24,325,505)	(24,936,159)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	23,403,548	20,336,931
Interest on capital asset related debt	(2,404,330)	-
Investment income, net of investment expense	<u>194,786</u>	<u>51,960</u>
Net nonoperating revenues	<u>21,194,004</u>	<u>20,388,891</u>
Loss before other revenues, expenses, gain or losses	(3,131,501)	(4,547,268)
Capital appropriations from the state	1,270,715	7,235,313
Capital grants and gifts	<u>98,755</u>	<u>1,254,066</u>
(Decrease) increase in net assets	(1,762,031)	3,942,111
Net assets:		
Net assets, beginning of year	<u>52,035,962</u>	<u>48,093,851</u>
Net assets, end of year	<u>\$ 50,273,931</u>	<u>\$ 52,035,962</u>

See accompanying notes to financial statements.

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
 STATEMENTS OF CASH FLOWS
 Years ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities		
Tuition and fees	\$ 15,393,882	\$ 9,803,931
Federal, state and local grants and contracts	13,924,141	11,561,784
Payments to suppliers	(10,995,953)	(10,135,521)
Payments to utilities	(1,415,587)	(873,528)
Payments to employees	(28,966,917)	(28,335,258)
Payments for benefits	(10,435,661)	(8,970,584)
Payments for scholarships and student financial aid	(852,194)	(1,064,493)
Auxiliary enterprise revenues	78,023	88,080
Sales and services of educational activities	1,643,434	1,877,703
Other receipts	<u>1,461,789</u>	<u>1,142,081</u>
Net cash from operating activities	<u>(20,165,043)</u>	<u>(24,905,805)</u>
Cash flows from noncapital financing activities		
State appropriations	<u>23,403,548</u>	<u>20,336,931</u>
Cash flows from capital and related financing activities		
State capital appropriations	1,270,715	7,235,313
Payments on bonds	(140,592)	(90,624)
Interest payments on bonds	(2,344,464)	-
Capital grants and gifts received	98,755	1,254,066
Purchases of capital assets	<u>(14,397,137)</u>	<u>(33,522,450)</u>
Net cash from capital and related financing activities	<u>(15,512,723)</u>	<u>(25,123,695)</u>
Cash flows from investing activities		
Interest on investments	194,786	51,960
Proceeds from sale and maturity of investments	<u>-</u>	<u>2,712,342</u>
Net cash from investing activities	<u>194,786</u>	<u>2,764,302</u>
Net decrease in cash and cash equivalents	(12,079,432)	(26,928,267)
Cash and cash equivalents, beginning of year	<u>16,872,424</u>	<u>43,800,691</u>
Cash and cash equivalents, end of year	<u>\$ 4,792,992</u>	<u>\$ 16,872,424</u>
Reconciliation of net operating loss to cash from operating activities:		
Operating loss	\$ (24,325,505)	\$ (24,936,159)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation expense	4,758,045	3,768,548
Loss on disposal of capital assets	85,958	157,308
Change in assets and liabilities		
Receivables	(587,526)	(2,386,602)
Inventories	(7,199)	739
Other assets	(438,347)	110,444
Accounts payable and accrued expenses	(145,115)	(1,072,360)
Deferred revenue	<u>494,646</u>	<u>(547,723)</u>
Net cash from operating activities	<u>\$ (20,165,043)</u>	<u>\$ (24,905,805)</u>

See accompanying notes to financial statements.

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Cincinnati State Technical and Community College (the College) is a community college organized under the laws 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 Board of Regents, 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. Further, 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.

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). The College has elected to apply only those Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, that does not conflict with or contradict GASB pronouncements. 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 has elected to report as an entity engaged in business-type activities. GASB 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 assets categories:

- Investments in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- Restricted:
Nonexpendable: Net assets the use of which is subject to externally imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time.

Expendable: Net assets subject to externally imposed stipulations that they be maintained permanently by the College.

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

(Continued)

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The financial statement presentation required by the GASB No. 35 is intended to provide a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets 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 a cash equivalent.

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. Fixed assets acquired prior to June 30, 1988, have been recorded on the basis of a cost-based appraisal prepared by an independent appraisal firm. 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. 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. Expenditures for construction in progress are capitalized as incurred.

Deferred Revenue: Assessed student tuition and fees as well as parking receipts received and related to the period after June 30 have been deferred. Grant money received but not yet expended for grant purposes at year end are recognized as deferred revenue.

Compensated Absences: Compensated absence costs are accrued when earned by employees.

Operating and Nonoperating Revenue: All revenues from programmatic sources are considered to be operating revenues. Included in nonoperating revenues are state appropriations, investment income and gifts.

Grants and Scholarships: Student tuition and fees and bookstore revenues 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 the Federal Pell Grant Program and Ohio Instructional Grant Program. Payments made directly to students from scholarships and student financial aid is presented as student aid expense.

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.

(Continued)

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Management Estimates: The preparations 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, revenues 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.

Recent Accounting Pronouncements: For the year ended June 30, 2005, the College implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3. This new standard revises the existing requirements regarding disclosure of custodial credit risk and establishes requirements regarding disclosure of credit risk, concentration of credit risk, interest rate risk and foreign currency risk. It has no impact on the amounts of investments, net assets or changes in net assets.

Component Unit Consideration: GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, became effective on July 1, 2003. This Statement amended Statement 14, *The Financial Reporting Entity*, to provide additional 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 is not included as a component unit of the College since its economic resources are not considered significant to the College.

Reclassification: Certain reclassifications were made to 2004 balances to be consistent with the classifications used in 2005.

NOTE 2 - CASH AND CASH EQUIVALENTS

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% of the deposit balance.

(Continued)

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 2 - CASH AND CASH EQUIVALENTS (Continued)

At June 30, 2005, the cash on hand was \$11,220, the carrying amount of the College's deposits was \$4,781,772 and the depository bank balance was \$4,557,207. The difference between the carrying amount and the depository bank balance is due principally to outstanding checks and deposits-in-transit. The bank balance includes \$4,878 in the State Treasury Asset Reserve of Ohio ("STAR Ohio") for which the collateral requirements mentioned above do not apply. Of the remaining \$4,552,329 bank balance, \$100,000 was covered by federal depository insurance and \$4,452,329 was collateralized by pledged, pooled securities not in the College's name. STAR Ohio is an investment pool managed by the State Treasurer's Office that allows governmental entities within the State to pool their funds for investment purposes. STAR Ohio is not registered with the Securities Exchange Commission (SEC) as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on the measurement date.

A portion of the College's cash (\$7,261 and \$9,235,557 at June 30, 2005 and 2004) is noncurrent since it is designated for restricted purposes.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable, net of allowance for doubtful accounts, as of June 30, 2005, were as follows:

	<u>2005</u>	<u>2004</u>
Grants	\$ 2,494,602	\$ 1,169,040
State appropriations	112,459	1,161,545
Tuition and other	6,662,611	5,323,716
Allowance for doubtful accounts	<u>(2,255,870)</u>	<u>(1,306,427)</u>
	<u>\$ 7,013,802</u>	<u>\$ 6,347,874</u>

(Continued)

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2005 and 2004

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2005 and 2004, was as follows:

	2005 Beginning <u>Balance</u>	<u>Additions</u>	<u>Disposals</u>	2005 Ending <u>Balance</u>
Land	\$ 2,096,976	\$ -	\$ -	\$ 2,096,976
Land improvements	2,222,712	-	-	2,222,712
Building and improvements	61,073,163	50,676,692	(46,732)	111,703,123
Equipment and furniture	19,822,410	409,445	(316,018)	19,915,837
Library books and audio visual	1,465,401	74,815	-	1,540,216
Construction-in-progress	<u>36,763,815</u>	<u>(36,763,815)</u>	-	-
Total fixed assets	123,444,477	14,397,137	(362,750)	137,478,864
Accumulated depreciation	<u>36,251,498</u>	<u>4,758,045</u>	<u>(276,792)</u>	<u>40,732,751</u>
Capital assets, net	<u>\$ 87,192,979</u>	<u>\$ 9,639,092</u>	<u>\$ (85,958)</u>	<u>\$ 96,746,113</u>
	2004 Beginning <u>Balance</u>	<u>Additions</u>	<u>Disposals</u>	2004 Ending <u>Balance</u>
Land	\$ 2,096,976	\$ -	\$ -	\$ 2,096,976
Land improvements	2,477,961	39,916	(295,165)	2,222,712
Building and improvements	49,344,400	11,728,763	-	61,073,163
Equipment and furniture	21,577,065	1,429,554	(3,184,209)	19,822,410
Library books and audio visual	1,418,985	85,709	(39,293)	1,465,401
Construction-in-progress	<u>12,959,095</u>	<u>23,804,720</u>	-	<u>36,763,815</u>
Total fixed assets	89,874,482	37,088,662	(3,518,667)	123,444,477
Accumulated depreciation	<u>35,549,000</u>	<u>3,768,548</u>	<u>(3,066,050)</u>	<u>36,251,498</u>
Capital assets, net	<u>\$ 54,325,482</u>	<u>\$ 33,320,114</u>	<u>\$ (452,617)</u>	<u>\$ 87,192,979</u>

The following estimated useful lives are used to compute depreciation:

	<u>Years</u>
Land improvements	15-30
Buildings and improvements	15-60
Equipment and furniture	3-20
Library books and audio visual	20

(Continued)

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2005 and 2004

NOTE 5 – LONG-TERM DEBT

Bonds payable at June 30 comprise the following:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2005</u>	<u>Current</u>	<u>Long-Term</u>
General receipts bonds	\$ 47,580,000	\$ (50,000)	\$ 47,530,000	\$ 50,000	\$ 47,480,000
Bond premium	<u>1,502,508</u>	<u>(90,592)</u>	<u>1,411,916</u>	<u>90,546</u>	<u>1,321,370</u>
Total	<u>\$ 49,082,508</u>	<u>\$ (140,592)</u>	<u>\$ 48,941,916</u>	<u>\$ 140,546</u>	<u>\$ 48,801,370</u>

During the year ended June 30, 2003, the College issued General Receipts Bonds, series 2002 for \$47,580,000 that bear interest rates between 2.25% to 5.25% and that mature in 2029. Proceeds were used for paying costs of capital facilities. The bonds are collateralized by a pledge of general receipts of the College.

The annual debt service requirements to maturity for the bonds are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 50,000	\$ 2,402,830	\$ 2,452,830
2007	85,000	2,400,796	2,485,796
2008	110,000	2,397,748	2,507,748
2009	545,000	2,383,434	2,928,434
2010-2014	5,995,000	11,236,411	17,231,411
2015-2019	10,615,000	8,997,453	19,612,453
2020-2024	13,630,000	5,806,969	19,436,969
2025-2029	<u>16,500,000</u>	<u>1,842,501</u>	<u>18,342,501</u>
Total	<u>\$ 47,530,000</u>	<u>\$ 37,468,142</u>	<u>\$ 84,998,142</u>

NOTE 6 - 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").

(Continued)

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 6 - EMPLOYEE BENEFIT PLANS (Continued)

SERS and STRS are statewide cost-sharing multi-employer defined benefit pension plans that provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

Authority to establish and amend benefits is provided by the Ohio Revised Code. The financial statements and required supplementary statements for SERS and STRS are made available for public inspection. The reports may be obtained by writing or calling:

SERS
45 North Fourth St.
Columbus, OH 43215-3634
(614) 222-5853

STRS
275 East Broad Street
Columbus, OH 43215-3771
(614) 227-4090

SERS plan members are required to contribute 9.0% of their annual salary and STRS members contributed 9.3%. The College is currently required to contribute 14% of annual covered payroll for SERS and STRS. The contribution requirements of plan members and the College are established and may be amended by state statute. The College's contributions to SERS and STRS for the years ending June 30, 2005, 2004 and 2003, were as follows:

<u>Year</u>	<u>Contribution</u>	
	<u>SERS</u>	<u>STRS</u>
2005	\$ 1,151,623	\$ 2,696,051
2004	1,059,894	2,611,443
2003	956,190	2,595,018

The contributions made by the College were equal to the required contributions for each year.

Effective March 31, 1999, the Board of Trustees of the College approved the Chapter 3305 Alternative Retirement Plan in accordance with the provisions of the 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. At June 30, 2005, no contributions or rollovers from other benefit plans have been made to approved providers.

(Continued)

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, SERS and STRS provide post-retirement health care coverage. The Ohio Revised Code provides the authority for public employers to fund post-retirement 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. The Other Post employment Benefits expense is included in the College's annual contributions as described in Note 6.

SERS: SERS coverage is made available to service retirees with ten 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 health care 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 50% for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. At June 30, 2004, the health care allocation is 4.91%. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal 2004, the minimum pay has been established at \$25,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of asset target level for the health care fund. Surcharge amounts billed to the College have not been significant.

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of the annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, the Retirement System's net assets available for payment of health care benefits were \$300.8 million and the number of benefit recipients was approximately 62,000.

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

(Continued)

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

The Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year ended June 30, 2004, the Board allocated employer contributions equal to 1% of covered payroll to the Health Care Stabilization Fund. The balance in the Health Care Stabilization Fund was \$3.1 billion on June 30, 2004.

For fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000. There were 111,853 eligible benefit recipients.

NOTE 8 - COMPENSATED ABSENCES

All full-time non-union and 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 accumulated days earned by the employees up to the maximum payout upon retirement. At June 30, 2005 and 2004, the liability for personal and/or sick leave was approximately \$2,100,000 and \$1,991,000, respectively.

Contract employees earn 20 days vacation leave each year. Non-contract employees earn 10 days 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, 2005 and 2004, the liability for vacation was approximately \$1,024,000 and \$969,000, respectively.

(Continued)

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2005 and 2004

NOTE 9 - GRANTS AND CONTRACTS

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 10 - LEASES

The College leases various equipment and facilities under operating leases. Rental expenditures relating to operating lease agreements were approximately \$241,000 and \$234,000 for the years ended June 30, 2005 and 2004, respectively. The approximate future minimum payments under operating leases at June 30, 2005, are due as follows:

2006	\$ 756,000
2007	859,000
2008	508,000
2009	218,000
2010	<u>38,000</u>
Total	<u>\$ 2,379,000</u>

NOTE 11 – AUXILIARY ENTERPRISES

Revenues and expenses of the College's auxiliary enterprises for the years ended June 30, 2005 and 2004, consist of the following:

<u>2005</u>	<u>Parking</u>	<u>Cafeteria</u>	<u>Airport</u>	<u>Childcare Center</u>	<u>Total</u>
Revenues	\$ 821,686	\$ 736,694	\$ 212,889	\$ 279,877	\$ 2,051,146
Expenses	<u>445,925</u>	<u>1,038,477</u>	<u>234,631</u>	<u>262,227</u>	<u>1,981,260</u>
Excess (deficiency) of revenues over expenses	<u>\$ 375,761</u>	<u>\$ (301,783)</u>	<u>\$ (21,742)</u>	<u>\$ 17,650</u>	<u>\$ 69,886</u>
<u>2004</u>					
Revenues	\$ 744,568	\$ 654,499	\$ 140,759	\$ -	\$ 1,539,826
Expenses	<u>452,515</u>	<u>840,579</u>	<u>158,651</u>	<u>-</u>	<u>1,451,745</u>
Excess (deficiency) of revenues over expenses	<u>\$ 292,053</u>	<u>\$ (186,080)</u>	<u>\$ (17,892)</u>	<u>\$ -</u>	<u>\$ 88,081</u>

The College assumed operation of the Childcare Center in fiscal year 2005. Depreciation expense is not allocated to the individual auxiliary enterprise.

(Continued)

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2005 and 2004

NOTE 12 – RESTRICTED NET ASSETS

Restricted net assets are expendable for use in public service of approximately \$50,000 (2005) and \$119,000 (2004), in student loans of approximately \$168,000 (2005) and \$222,000 (2004).

NOTE 13 - 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.

NOTE 14 - PENDING LITIGATION

The College is party to various litigation in the ordinary course of business. However, College management is of the opinion, based on legal advice of legal counsel, that the ultimate resolution of these matters will not have a material effect on the future operations or financial position of the College.

NOTE 15 - NET ASSET RECLASSIFICATION

During 2005, it was discovered that the 2004 state appropriation of \$3,707,269 for the ATLC building had been classified as unrestricted instead of invested in capital assets. Therefore, net assets at June 30, 2004 have been reclassified as follows:

	Net assets as originally <u>reported</u>	<u>Reclassification</u>	Net assets as reclassified
Invested in capital assets, net of related debt	\$ 46,344,427	\$ 3,707,269	\$ 50,051,696
Restricted	340,785		340,785
Unrestricted	<u>5,350,750</u>	<u>(3,707,269)</u>	<u>1,643,481</u>
Total	<u>\$ 52,035,962</u>	<u>\$ -</u>	<u>\$ 52,035,962</u>

The reclassification has no effect on total net assets or the statements of revenues, expenses and changes in net assets and cash flows.

CINCINNATI STATE TECHNICAL
AND COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2005

<u>Federal Grant/Program Title</u>	<u>Pass Through Number</u>	<u>Federal CFDA</u>	<u>Federal Expenditures</u>
U. S. DEPARTMENT OF EDUCATION:			
Direct Programs			
Student Financial Aid			
Federal Pell Grant Program		84.063	\$ 6,959,829
Federal Perkins Loan Program		84.038	310,021
Federal Work Study Program		84.033	290,731
Federal Supplemental Educational Opportunity Grant Program		84.007	480,598
Federal Family Educational Loan Program		84.032	<u>16,477,932</u>
Total Student Financial Aid Cluster			24,519,111
TRIO Cluster			
Upward Bound		84.047	211,465
Student Support Services		84.042A	268,252
EOC		84.066	<u>225,352</u>
Total TRIO Cluster			705,069
Basic Grants to States		84.048	211,941
Information Technology Grant		84.323A	1,485
Child Care Solutions		84.335A	36,880
Disability Grant		84.333A	211,472
Paraprofessional Grant		84.367A	500
Pass through Cincinnati Public Schools			
CPS High School Tutoring	421253	84.341A	27,270
Lab Monitor	426782	84.341A	11,994
No Child Left Behind	424172	84.010	<u>61,622</u>
			100,886
Pass through Mount Healthy Public Schools			
Mount Healthy Tutoring	407099	84.010	21

(Continued)

CINCINNATI STATE TECHNICAL
AND COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2005

<u>Federal Grant/Program Title</u>	<u>Pass Through Number</u>	<u>Federal CFDA</u>	<u>Federal Expenditures</u>
Pass through University of Cincinnati Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)	P000-030-J617/ P000-030-E968	84.334A	<u>\$ 501,624</u>
Total U. S. Department of Education			<u>26,288,989</u>
 HEALTH AND HUMAN SERVICES			
Direct Programs			
HCOP Grant		93.822	74,163
 Passed through Hamilton County per DHS			
Tutoring Grant, passed through Hamilton County per DHS	83347	93.558	<u>45,522</u>
Total Health and Human Services			<u>119,685</u>
 FEDERAL AVIATION ADMINISTRATION, DEPARTMENT OF TRANSPORTATION			
FAA Airport Grant		20.106	<u>114,215</u>
 DEPARTMENT OF LABOR			
Job Corp, passed through Management and Training Corp		17.257	<u>107,249</u>
 Total Federal Awards			 <u>\$ 26,630,138</u>

CINCINNATI STATE TECHNICAL
AND COMMUNITY COLLEGE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2005

NOTE 1 - BASIS OF ACCOUNTING

This schedule includes the federal awards activity of Cincinnati State Technical and Community College and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. Catalog of Federal Domestic Assistance ("CFDA") numbers are presented for those programs for which such numbers were available. All programs are presented by federal department. Pass-through programs are also presented by the entity through which the College received the federal award.

NOTE 2 - LOANS

The College participates in the Federal Family Education Loan Program (including Stafford Loans and Supplemental Loans for Students). Loans processed by the College under this Loan Program were the following for the year ended June 30, 2005:

Unsubsidized Stafford Loan	\$ 9,514,405
Subsidized Stafford Loan	6,618,519
PLUS Loan	345,008

The College administers the Federal Perkins Loan Program (CDFA 84.038). The College made no expenditures or transfers for this program for the year ended June 30, 2005. Only the outstanding loan balance is included in the accompanying Schedule of Expenditures of Federal Awards totaling \$310,021 at June 30, 2005.



Crowe Chizek and Company LLC
Member Horwath International

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

To the Board of Trustees of
Cincinnati State Technical and Community College
Cincinnati, Ohio

We have audited the financial statements of Cincinnati State Technical and Community College (the "College") as of and for the year ended June 30, 2005, and have issued our report thereon dated September 29, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted other matters involving compliance that we have reported to management in a separate letter dated September 29, 2005.

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

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Columbus, Ohio
September 29, 2005



Crowe Chizek and Company LLC
Member Horwath International

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

To the Board of Trustees of
Cincinnati State Technical and Community College
Cincinnati, Ohio

Compliance

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

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

As described in Finding 05-01 in the accompanying schedule of findings and questioned costs, the College did not comply with requirements regarding having a current indirect cost rate agreement that is applicable to its Trio Cluster (Upward Bound, CFDA No. 84.047, Student Support Services, CFDA No. 84.042 and Educational Opportunity Center, CFDA No. 84.066) Compliance with such requirements is necessary, in our opinion, for the College to comply with requirements applicable to that program.

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

Internal Control Over Compliance

The management of Cincinnati State Technical and Community College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, except for the functions performed at the College's contract outside service center in connection with processing transactions from the Perkins program, we considered the College's internal control over compliance with requirements that could have a direct and material effect on a major federal award program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the College's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 05-01.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

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


Crowe Chizek and Company LLC

Columbus, Ohio
September 29, 2005

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2005

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Cincinnati State Technical and Community College for the year ended June 30, 2005.
2. No instances of noncompliance material to the financial statements of Cincinnati State Technical and Community College were disclosed during the audit.
3. A reportable condition was reported relative to internal control over major federal award programs for Cincinnati State Technical and Community College identified as finding 05-01.
4. The auditors' report on compliance for the major federal award programs for Cincinnati State Technical and Community College expresses a qualified opinion.
5. There was an audit finding relative to the major federal award programs for Cincinnati State Technical and Community College identified as finding 05-01.
6. Major programs include:
 - Student Financial Aid Cluster (consisting of):
 - Federal Pell Grant Program, CFDA No. 84.063
 - Federal Work Study Program, CFDA No. 84.033
 - Federal Supplemental Educational Opportunity Grant, CFDA No. 84.007
 - Federal Perkins Loan Program, CFDA No. 84.038
 - Federal Family Education Loan Program, CFDA No. 84.032
 - TRIO Cluster (consisting of):
 - Upward Bound, CFDA No. 84.047
 - Student Support Services, CFDA No. 84.042
 - Educational Opportunity Center, CFDA No. 84.066
 - Gear Up, CFDA No. 84.334A
 - Gear Up II, CFDA No. 84.334A
7. The threshold for distinguishing Types A and B programs was \$300,000.
8. Cincinnati State Technical and Community College was determined to be a low-risk auditee.

(Continued)

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2005

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD AUDIT

See finding 05-01

D. CORRECTIVE ACTION PLAN

See finding 05-01

E. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

See findings

CINCINNATI STATE TECHNICAL
AND COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -
MAJOR FEDERAL AWARDS
June 30, 2005

FINDING 05-01 - Upward Bound (CFDA No. 84.047), Student Support Services (CFDA No. 84.042) and Educational Opportunity Center (CFDA No. 84.066)

Criteria: 34 CFR 75.560(b) states "A grantee must have a current indirect cost rate agreement to charge indirect costs to a grant. To obtain an indirect cost rate, a grantee must submit an indirect cost proposal to its cognizant agency and negotiate an indirect cost rate agreement."

Condition: During our testing and inquiry with management, we noted that the College is reimbursed for indirect costs under these programs but does not currently have a negotiated cost rate agreement in place.

Questioned Cost: \$44,808.72

Effect: The College is not in compliance with 34 CFR 75.560(b) which could adversely affect the College's funding in future years.

Cause: The cause of this finding appears to be a lack in management oversight and difficulty preparing the required document.

Recommendation: We recommend that the College prepare an indirect cost rate agreement in a timely manner to ensure compliance with the federal regulations.

Management Response and Corrective Action Plan: The College concurs that an indirect cost rate is required and not an alternative to using 8% of the modified total indirect cost base that the College has been using. In fact, the College has prepared an initial draft of an indirect cost agreement which is in the hands of the Chief Fiscal Officer. That draft document will be reviewed, finalized and submitted by January 31, 2006.

CINCINNATI STATE TECHNICAL
AND COMMUNITY COLLEGE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2005

FINDING 04-01 - Pell Grant Program (CFDA No. 84.063)

Of the 33 students selected for disbursement testing, we noted that the College did not report the Pell disbursements made during various terms to the COD within 30 days for 27 of those students.

Status: Corrective action has been taken.

Finding 04-02 - Federal Family Education Loan Program (CFDA No. 84.032)

During our testing of 25 students that officially withdrew from the College and received some type of Title IV funds during the 2004-2005 academic year, we noted that for four students, applicable funds were returned past the 30 day requirement and funds for another student were not returned. We also noted that another calculation included an incorrect withdraw date.

Status: Corrective action has been taken.

Finding 04-03 - Federal Family Education Loan Program (CFDA No. 84.032)

During our testing of disbursements made to 33 students, we noted the College received FFEL funds for 11 students that were not disbursed or returned within the three days required under 34 CFR 668.167.

Status: Corrective action has been taken.



**Auditor of State
Betty Montgomery**

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CINCINNATI STATE TECHNICAL AND 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
JANUARY 12, 2006**