

**CINCINNATI STATE TECHNICAL
AND COMMUNITY COLLEGE**

**REPORT ON AUDIT OF INSTITUTION
OF HIGHER EDUCATION
IN ACCORDANCE WITH OMB CIRCULAR A-133
June 30, 2004**



**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 the Cincinnati State Technical and Community College, Hamilton County, prepared by Crowe Chizek and Company LLC, for the audit period July 1, 2003 to June 30, 2004. 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 cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

January 18, 2005

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AND COMMUNITY COLLEGE

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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 year ended June 30, 2004, with selected comparative information for the year ended June 30, 2003. 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. In fiscal year 2002 the College adopted 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>2004</u>	<u>2003</u>	<u>2002</u>
ASSETS			
Cash, cash equivalents and investments	\$ 16,872	\$ 46,513	\$ 4,997
Accounts receivable, net	6,348	3,867	9,334
Other assets	845	1,081	552
Capital assets, net	<u>87,193</u>	<u>54,325</u>	<u>46,212</u>
Total assets	<u>111,258</u>	<u>105,786</u>	<u>61,095</u>
LIABILITIES			
Accounts payable and accrued expenses	7,279	6,207	6,380
Deferred revenue	2,860	2,312	2,047
Debt	<u>49,083</u>	<u>49,173</u>	<u>-</u>
Total liabilities	<u>59,222</u>	<u>57,692</u>	<u>8,427</u>
NET ASSETS			
Invested in capital assets, net of related debt	46,344	44,848	46,212
Restricted	341	459	518
Unrestricted	<u>5,351</u>	<u>2,787</u>	<u>5,938</u>
Total net assets	<u>\$ 52,036</u>	<u>\$ 48,094</u>	<u>\$ 52,668</u>

Assets

Cash and investments make up 15% and 44% of total assets at June 30, 2004 and 2003, respectively. The significant decrease in 2004 is the result of spending \$31.7 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 5.7% and 3.7% of the total assets at June 30, 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 addition, state funding for capital projects increased resulting in a \$1.2 million receivable at year end. Accounts receivable include (*in thousands*):

	<u>2004</u>	<u>2003</u>
Grants	\$ 1,169	\$ 1,078
State appropriations	1,161	18
Student and other operating receivables	4,018	2,771

Capital assets, net of depreciation, make up 78.4% and 51.4% of the total assets at June 30, 2004 and 2003, respectively. In 2004 construction in progress for the ATLC increased by \$21.8 million of an estimated \$48.7 million total cost. The ATLC is expected to be completed in the fall of 2004. 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 \$7.3 million consist of accounts payable and accrued expenses primarily for wages, benefits, suppliers and utilities and \$2.9 million of deferred revenue for summer-term classes, which is recognized in fiscal year 2005 when the majority of the term occurs. Accounts payable increased by \$1.1 million due primarily to the increase from the State of Ohio for state-funded capital projects.

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

Net assets invested in capital assets consist 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 non-operating revenues and expenses of the College. State appropriations, while budgeted for operations, are considered non-operating revenues. A summarized comparison for the years ended June 30 follows (*in thousands*):

	<u>2004</u>	<u>2003</u>	<u>2002</u>
REVENUES			
Tuition and fees, net	\$ 12,975	\$ 12,291	\$ 12,701
Grants and contracts	11,658	11,082	9,657
Sales and services	1,878	2,018	2,162
Auxiliary services	1,540	1,400	1,275
Other operating revenue and gifts	2,115	894	9,376
State instructional appropriations	20,337	19,659	20,371
State capital appropriations	<u>7,235</u>	<u>2,309</u>	<u>3,817</u>
Total revenues	<u>57,738</u>	<u>49,653</u>	<u>59,359</u>
EXPENSES			
Instruction	22,383	21,878	20,249
Public support	2,088	2,718	2,690
Academic support	3,440	3,549	3,407
Student services	4,908	4,312	3,656
Institutional support	10,685	11,547	10,334
Operations and maintenance of plant	4,007	3,982	3,690
Depreciation	3,769	3,781	3,878
Scholarships	1,064	1,123	1,073
Auxiliary services	<u>1,452</u>	<u>1,337</u>	<u>1,089</u>
Total expenses	<u>53,796</u>	<u>54,227</u>	<u>50,066</u>
Increase (decrease) in net assets	3,942	(4,574)	9,293
Net assets – beginning of year	<u>48,094</u>	<u>52,668</u>	<u>43,375</u>
Net assets – end of year	<u>\$ 52,036</u>	<u>\$ 48,094</u>	<u>\$ 52,668</u>

Revenues

State appropriations comprising state instructional subsidy and Access Challenge funding increased by \$678,000 or 3.5% over fiscal year 2004 and \$274,000 or 2.1% over fiscal year 2002.

State capital appropriations increased by \$4.9 million in fiscal year 2004 as a result of main-campus infrastructure upgrades associated with the construction of the ATLC. The amount of capital appropriations used varies from year to year depending upon 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 2004 increased by \$517,000, or 2.4%, over fiscal year 2003 as a result of increased enrollment. Financial aid in the form of grants and scholarships decreased by \$167,000, or 1.8%, in 2004. The effect of netting the scholarship allowances against the instructional revenues resulted in a net increase in tuition and fees of \$684,000.

Sales and services revenue consists primarily of workforce development job skills training. A decline in activity in the areas of Environmental Health and Safety, CSX Railroad Conductor training and Business Management accounted for a decrease in sales and services revenues of \$860,000. However, non-credit revenues through the College's Community Outreach programs generated an increase of approximately \$500,000. Overall, sales and services revenues decreased by \$140,000 or 6.9%.

Auxiliary service revenues consist of parking, cafeteria sales, and airport rental fees and fuel sales. Parking revenues and cafeteria sales represent approximately 91.0% of the fiscal year 2004 total auxiliary services revenues of \$1,540,000. The increase of \$140,000, or 9.9%, over fiscal year 2003 is due to an increase in parking revenues of \$120,000 as a result of opening a new parking garage.

Expenses

Expenses for fiscal year 2004 decreased by \$431,000, or 1%, over fiscal year 2003 and increased by \$3,730,000, or 7.5%, over fiscal year 2002. The change from fiscal year 2003 derives primarily from the five following functional categories of expense.

Instructional expenses increased by \$505,000 or 2.3%. Increased spending for adjunct instructors, instructional overload, and special units arose from the increases in enrollment and credit hours.

Student service expenses increased by \$596,000, or 13.8%, again generated by the increase in enrollment.

Institutional support expenses decreased by \$862,000, or 7.4%, as a result of the implementation of cost containment and efficiency measures.

Public support expenses decreased by \$629,000, or 23.2%, primarily from the loss of the railroad conductor program supported by the Workforce Development Center.

The major portion of the increase in auxiliary services expenses of \$115,000, or 8.6%, came from the opening of a new parking garage.

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>2004</u>	<u>2003</u>	<u>2002</u>
Net cash from operating activities	\$ (24,906)	\$ (17,820)	\$ (22,864)
Net cash flows provided by non-capital financing activities	20,337	19,658	20,316
Net cash flows from capital and related financing activities	(25,124)	39,603	(910)
Net cash flows provided (used) by investing activities	<u>2,764</u>	<u>(2,637)</u>	<u>190</u>
Net increase (decrease) in cash and cash equivalents	(26,929)	38,804	(3,268)
Cash and cash equivalents – beginning of year	<u>43,801</u>	<u>4,997</u>	<u>8,265</u>
Cash and cash equivalents – end of year	<u>\$ 16,872</u>	<u>\$ 43,801</u>	<u>\$ 4,997</u>

The \$26.9 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 deficit of \$4.7 million in 2004 and an operating surplus of \$1.8 million in 2003.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Capital assets, net of accumulated depreciation, totaled \$87.2 million at June 30, 2004, an increase of \$32.9 million. Significant changes to capital assets during fiscal year 2004, included (*in millions*):

Buildings and improvements	\$ 11.7
Land and land improvements	(.2)
Equipment and library collections	(1.7)
Net change in construction in progress	23.8
Increase in accumulated depreciation	<u>(.7)</u>
Total	<u>\$ 32.9</u>

Construction in progress of \$36.8 million was associated with the Advance Technology and Learning Center (ATLC).

Debt

At June 30, 2004, bonds payable, including the bond premium, amounting to \$49.1 million consisted of the General Receipts Bonds, Series 2002, for the ATLC and parking garage.

Long-term debt decreased by \$91,000, which was the annual amortization of the \$1.5 million in 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 48% of the College's total revenue sources. The 6% decrease in state instructional subsidy over the past three fiscal years, while enrollment has increased steadily, has exerted significant cost pressures. In fiscal year 2004 the College was able to offset the losses in state funding through tight fiscal management and by exercising extensive cost cutting measures. While these measures continue, the Board of Trustees approved a 9.9% increase in tuition and fees effective summer term 2004 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 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, and more collaborative relationships among student-service organizations. For fiscal year 2005, the College is anticipating additional growth in student enrollment.

The College exists in an increasingly competitive higher education environment. To address this, the new Advanced Technology and Learning Center (ATLC) provide a breakthrough in academics in terms of technology and space. The ATLC houses the new Midwest Culinary Institute, allowing the College to expand the hospitality programs and build an innovative partnership with the University of Cincinnati. The ATLC information technology labs offer state-of-the-art equipment for the high-tech programs such as audio/video production. In addition, 14 general classrooms will be available to all academic divisions to schedule more developmental education, health, business, humanities, and science classes to meet industry and community needs.

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.

More specifically, the program review process and the program cost analysis project are two continuing endeavors which will enhance the quality of academic programs and obtain greater efficiencies in both academic and administrative program areas.

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 technical college, management is fully committed to the financial support of these endeavors.

Looking forward, the College is positioned to maintain its financial condition through growing enrollments, through new financial resources including 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

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying statement of net assets of Cincinnati State Technical and Community College (the "College"), a component unit of the State of Ohio, as of June 30, 2004, and the related statements of revenues, expenses and changes in net assets and of cash flows for the year then ended. 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 audit. The financial statements of the College as of June 30, 2003, were audited by other auditors whose report, dated September 26, 2003, expressed an unqualified opinion on those statements.

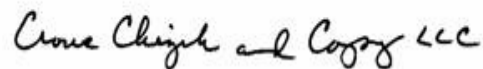
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, such financial statements present fairly, in all material respects, the financial position of Cincinnati State Technical and Community College at June 30, 2004, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2004 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 grants 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 Cincinnati State Technical and Community 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 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 presented on pages 1 through 8 is not a required part of the basic 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 the supplemental information. However, we did not audit the information and express no opinion on it.



Crowe Chizek and Company LLC

Columbus, Ohio
October 7, 2004

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
 STATEMENTS OF NET ASSETS
 June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,636,867	\$ 5,569,337
Accounts receivable, net	6,347,874	3,866,788
Inventories	15,056	15,795
Prepaid and other assets	<u>97,247</u>	<u>207,691</u>
Total current assets	<u>14,097,044</u>	<u>9,659,611</u>
Noncurrent assets:		
Cash and cash equivalents	9,235,557	38,231,354
Investments	-	2,712,342
Notes receivable, net	222,323	316,807
Other assets	509,603	540,340
Capital assets, net	<u>87,192,979</u>	<u>54,325,482</u>
Total noncurrent assets	<u>97,160,462</u>	<u>96,126,325</u>
Total assets	<u>111,257,506</u>	<u>105,785,936</u>
LIABILITIES		
Current liabilities:		
Accounts payable	2,220,380	1,594,955
Accrued liabilities:		
Wages	1,041,240	904,590
Compensated absences	2,959,441	2,827,013
Other	456,632	278,775
Accrued interest	601,223	601,223
Deferred revenue	2,860,120	2,312,397
Current portion of long-term debt	<u>140,592</u>	<u>-</u>
Total current liabilities	10,279,628	8,518,953
Long-term debt	<u>48,941,916</u>	<u>49,173,132</u>
Total liabilities	<u>59,221,544</u>	<u>57,692,085</u>
NET ASSETS		
Invested in capital assets, net of related debt	46,344,427	44,848,144
Restricted	340,785	459,327
Unrestricted	<u>5,350,750</u>	<u>2,786,380</u>
Total net assets	<u>\$ 52,035,962</u>	<u>\$ 48,093,851</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, 2004 and 2003

	<u>2004</u>	<u>2003</u>
REVENUES		
Operating revenues:		
Student tuition and fees, net of scholarships and student financial aid of \$8,720,946 and \$8,888,491 in 2004 and 2003, respectively	\$ 12,974,907	\$ 12,290,570
Federal grants and contracts	8,212,074	7,451,566
State and local grants and contracts	3,113,059	3,336,042
Nongovernmental grants and contracts	333,405	294,623
Sales and services of educational departments	1,877,703	2,018,380
Auxiliary enterprises	1,539,826	1,399,863
Other operating revenues	<u>808,676</u>	<u>738,201</u>
Total operating revenues	<u>28,859,650</u>	<u>27,529,245</u>
 EXPENSES		
Operating expenses:		
Instructional	22,382,807	21,878,017
Public support	2,088,236	2,717,875
Academic support	3,440,122	3,548,893
Student services	4,908,365	4,311,784
Institutional support	10,684,791	11,547,417
Plant operation and maintenance	4,006,701	3,981,669
Scholarships and student financial aid	1,064,493	1,122,996
Auxiliary enterprises	1,451,746	1,336,837
Depreciation	<u>3,768,548</u>	<u>3,781,277</u>
Total operating expenses	<u>53,795,809</u>	<u>54,226,765</u>
 Operating loss	 (24,936,159)	 (26,697,520)
 NONOPERATING REVENUES (EXPENSES)		
State appropriations	20,336,931	19,658,509
Investment income, net of investment expense	<u>51,960</u>	<u>75,011</u>
Net nonoperating revenues	<u>20,388,891</u>	<u>19,733,520</u>
 Loss before other revenues, expenses, gain or losses	 (4,547,268)	 (6,964,000)
 Capital appropriations from the state	 7,235,313	 2,309,302
 Capital grants and gifts	 <u>1,254,066</u>	 <u>80,058</u>
 Increase (decrease) in net assets	 3,942,111	 (4,574,640)
 Net assets:		
Net assets, beginning of year	<u>48,093,851</u>	<u>52,668,491</u>
 Net assets, end of year	 <u>\$ 52,035,962</u>	 <u>\$ 48,093,851</u>

See accompanying notes to financial statements.

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
 STATEMENTS OF CASH FLOWS
 Years ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities		
Tuition and fees	\$ 9,803,931	\$ 12,980,790
Federal, state and local grants and contracts	11,561,784	15,924,485
Payments to suppliers	(10,135,521)	(13,168,971)
Payments to utilities	(873,528)	(903,128)
Payments to employees	(28,335,258)	(26,759,120)
Payments for benefits	(8,970,584)	(7,885,647)
Payments for scholarships and student financial aid	(1,064,493)	(1,122,996)
Auxiliary enterprise revenues	88,080	63,026
Sales and services of educational activities	1,877,703	2,018,380
Other receipts	<u>1,142,081</u>	<u>1,032,824</u>
Net cash from operating activities	<u>(24,905,805)</u>	<u>(17,820,357)</u>
Cash flows from noncapital financing activities		
State appropriations	<u>20,336,931</u>	<u>19,658,509</u>
Cash flows from capital and related financing activities		
State capital appropriations	7,235,313	2,309,768
Proceeds from issuance of bonds	-	49,233,548
Payments on bonds	(90,624)	-
Capital grants and gifts received	1,254,066	80,058
Purchases of capital assets	<u>(33,522,450)</u>	<u>(12,020,150)</u>
Net cash from capital and related financing activities	<u>(25,123,695)</u>	<u>39,603,224</u>
Cash flows from investing activities		
Interest on investments	51,960	75,012
Proceeds from sale and maturity of investments	2,712,342	-
Purchase of investments	<u>-</u>	<u>(2,712,342)</u>
Net cash from investing activities	<u>2,764,302</u>	<u>(2,637,330)</u>
Net increase (decrease) in cash and cash equivalents	(26,928,267)	38,804,046
Cash and cash equivalents, beginning of year	<u>43,800,691</u>	<u>4,996,645</u>
Cash and cash equivalents, end of year	<u>\$ 16,872,424</u>	<u>\$ 43,800,691</u>
Reconciliation of net operating loss to cash from operating activities:		
Operating loss	\$ (24,936,159)	\$ (26,697,520)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation expense	3,768,548	3,781,277
Loss on disposal of capital assets	157,308	125,696
Change in assets and liabilities:		
Receivables	(2,386,602)	5,561,701
Inventories	739	(1,526)
Other assets	110,444	(80,398)
Accounts payable and accrued expenses	(1,072,360)	(774,983)
Deferred revenue	<u>(547,723)</u>	<u>265,396</u>
Net cash from operating activities	<u>\$ (24,905,805)</u>	<u>\$ (17,820,357)</u>

See accompanying notes to financial statements.

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2004 and 2003

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

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

(Continued)

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2004 and 2003

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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 an 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 has been deferred. Grant monies 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.

(Continued)

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2004 and 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 are 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.

Management 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, 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: GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units," became effective on July 1, 2003. This Statement amends 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 governmental 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.

Reclassifications: Certain reclassifications were made to 2003 balances to be consistent with the classifications used in 2004.

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
Years ended June 30, 2004 and 2003

NOTE 2 - CASH AND CASH EQUIVALENTS (Continued)

At June 30, 2004, the cash on hand was \$12,640, the carrying amount of the College's deposits was \$16,859,784 and the depository bank balance was \$18,615,206. The difference between the carrying amount and the depository bank balance is principally due to outstanding checks and deposits-in-transit. The bank balance includes \$4,312,265 in the State Treasury Asset Reserve of Ohio ("STAR Ohio") for which the collateral requirements mentioned above do not apply. Of the remaining \$14,302,941 bank balance, \$200,000 was covered by federal depository insurance and \$14,102,941 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 (\$9,235,557 and \$38,231,354 at June 30, 2004 and 2003, respectively) is noncurrent since it is designated for capital construction.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable, net of allowance for doubtful accounts as of June 30, 2004 and 2003, were as follows:

	<u>2004</u>	<u>2003</u>
Grants	\$ 1,169,040	\$ 1,078,308
State appropriations	1,161,545	18,368
Tuition and other	5,323,716	3,419,241
Allowance for doubtful accounts	<u>(1,306,427)</u>	<u>(649,129)</u>
	<u>\$ 6,347,874</u>	<u>\$ 3,866,788</u>

(Continued)

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2004 and 2003

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2004 and 2003 was as follows:

	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>-</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>
	2003 Beginning <u>Balance</u>	<u>Additions</u>	<u>Disposals</u>	2003 Ending <u>Balance</u>
Land	\$ 2,096,976	\$ -	\$ -	\$ 2,096,976
Land improvements	2,182,782	295,179	-	2,477,961
Building and improvements	49,063,959	463,017	(182,576)	49,344,400
Equipment and furniture	21,445,671	569,970	(438,576)	21,577,065
Library books and audio visual	1,369,792	80,604	(31,411)	1,418,985
Construction-in-progress	<u>2,347,715</u>	<u>10,611,380</u>	<u>-</u>	<u>12,959,095</u>
Total fixed assets	78,506,895	12,020,150	(652,563)	89,874,482
Accumulated depreciation	<u>32,294,590</u>	<u>3,781,277</u>	<u>(526,867)</u>	<u>35,549,000</u>
Capital assets, net	<u>\$ 46,212,305</u>	<u>\$ 8,238,873</u>	<u>\$ (125,696)</u>	<u>\$ 54,325,482</u>

The following estimated useful lives are used to compute depreciation:

	<u>Years</u>
Land improvements	20
Building 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
Years ended June 30, 2004 and 2003

NOTE 5 – LONG-TERM DEBT

Bonds payable at June 30 comprise the following:

	<u>Balance</u> <u>July 1, 2003</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2004</u>	<u>Current</u>	<u>Long-Term</u>
General receipts bonds	\$ 47,580,000	\$ -	\$ -	\$ 47,580,000	\$ 50,000	\$ 47,530,000
Bond premium	<u>1,593,132</u>	<u>-</u>	<u>(90,624)</u>	<u>1,502,508</u>	<u>90,592</u>	<u>1,411,916</u>
 Total	 <u>\$ 49,173,132</u>	 <u>\$ -</u>	 <u>\$ (90,624)</u>	 <u>\$ 49,082,508</u>	 <u>\$ 140,592</u>	 <u>\$ 48,941,916</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 are used to pay for 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>
2005	\$ 50,000	\$ 2,404,049	\$ 2,454,049
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>\$47,580,000</u>	 <u>\$39,872,191</u>	 <u>\$87,452,191</u>

Interest totaling \$2,021,178 (net of interest earned on invested proceeds) on debt issued to finance construction-in-progress was capitalized in 2004.

(Continued)

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2004 and 2003

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”).

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	STRS
45 North Fourth St.	275 East Broad Street
Columbus, OH 43215-3634	Columbus, OH 43215-3771
(614) 222-5853	(614) 227-4090

SERS plan members are required to contribute 9% of their annual salary while STRS members contribute 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, 2004, 2003 and 2002, were as follows:

<u>Year</u>	<u>Contribution</u>	
	<u>SERS</u>	<u>STRS</u>
2004	\$ 1,059,894	\$ 2,611,443
2003	956,190	2,595,018
2002	915,602	2,441,207

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 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, 2004 and 2003, 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
Years ended June 30, 2004 and 2003

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 5, 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 financial position of SERS and STRS has been extracted from information provided to the College by officials of SERS and STRS. The Other Postemployment Benefits expense is included in the College's annual contributions as described by 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. Members retiring on or after August 1, 1989, with less than 25 years of service credit must pay a portion of their premium for health care. Such portion is based on years of service up to a maximum of 75% of the premium.

Of the employer's 14% contribution rate discussed in Note 6, a portion (5.83% for the year ended June 30, 2003, the date of the most recent available information) is allocated to providing health care benefits. In addition, SERS levies a surcharge to fund health care benefits for employees earning less than a defined minimum pay (\$14,500 for fiscal year 2003). Surcharge amounts billed to the College have not been significant.

Benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150% of annual health care expenses. SERS net assets available for payment of expenses for health care benefits at June 30, 2003, was \$303.6 million and the target level was \$307.4 million. For the year ended June 30, 2003 (the most current information available), SERS expenses for health care were \$204.9 million, and the number of retirees and covered dependents receiving benefits from SERS was approximately 60,000 at June 30, 2003.

STRS: STRS provides comprehensive health care benefits to retirees and their dependents. Coverage includes hospitalization, physician fees, prescription drugs and partial reimbursement of monthly Medicare premiums. All benefit recipients and sponsored dependents are eligible for health care coverage. The Ohio Revised Code grants authority to STRS to provide health care coverage to benefit recipients, spouses and dependents. Pursuant to the Ohio Revised Code, STRS has discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients are required to pay a portion of the health care costs in the form of a monthly premium. Of the employer's 14% contribution rate discussed in Note 6, a portion, (1.0% for the year ended June 30, 2003, the date of the most recent information), is allocated to a health care reserve fund from which payments for health care benefits are made. The balance in STRS health care reserve fund was \$2.8 billion at June 30, 2003. For the year ended June 30, 2003, the net health care costs paid by STRS were approximately \$352.3 million, and there were approximately 108,000 eligible STRS benefit recipients.

(Continued)

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2004 and 2003

NOTE 8 – COMPENSATED ABSENCES

All full-time non-union and SEIU (Service Employees International Union) 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 pro-rated 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, 2004 and 2003, the liability for personal and/or sick leave was approximately \$1,991,000 and \$1,921,000, 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, 2004 and 2003, the liability for vacation was approximately \$969,000 and \$906,000, respectively.

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.

(Continued)

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
 NOTES TO FINANCIAL STATEMENTS
 Years ended June 30, 2004 and 2003

NOTE 10 - LEASES

The College leases various equipment and facilities under operating leases. Rental expenditures relating to operating lease agreements were approximately \$234,000 and \$430,000 for the years ended June 30, 2004 and 2003, respectively. The future minimum payments under operating leases at June 30, 2004 are due as follows:

2005	\$ 244,622
2006	81,516
2007	70,836
2008	29,594
2009	<u>10,264</u>
Total	<u>\$ 436,832</u>

NOTE 11 - AUXILIARY ENTERPRISES

Revenues and expenses of the College's auxiliary enterprises for the year ended June 30, 2004 and 2003 consist of the following:

<u>2004</u>	<u>Parking</u>	<u>Cafeteria</u>	<u>Airport</u>	<u>Total</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>1,451,745</u>
Excess (deficiency) of revenues over expenses	<u>\$ 292,053</u>	<u>\$ (186,080)</u>	<u>\$ (17,892)</u>	<u>\$ 88,081</u>
<u>2003</u>	<u>Parking</u>	<u>Cafeteria</u>	<u>Airport</u>	<u>Total</u>
Revenues	\$ 613,678	\$ 675,061	\$ 111,124	\$ 1,399,863
Expenses	<u>336,417</u>	<u>833,913</u>	<u>166,507</u>	<u>1,336,837</u>
Excess (deficiency) of revenues over expenses	<u>\$ 277,261</u>	<u>\$ (158,852)</u>	<u>\$ (55,383)</u>	<u>\$ 63,026</u>

Depreciation expense is not allocated to the individual auxiliary enterprise.

(Continued)

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
NOTES TO FINANCIAL STATEMENTS
Years ended June 30, 2004 and 2003

NOTE 12 – RESTRICTED NET ASSETS

Restricted net assets are expendable for use in public service of approximately \$119,000 (2004) and \$134,000 (2003) and in student loans of approximately \$222,000 (2004) and \$325,000 (2003).

NOTE 13 - CAPITAL PROJECT COMMITMENTS

At June 30, 2004, the College is committed to future capital expenditures of approximately \$15,072,000 for the construction of an Advanced Technology and Learning Center. The total cost of the project is estimated at \$48,700,000 of which approximately \$21,783,000 has been incurred as of June 30, 2004. The project is being financed with College Facility Bonds, Series 2002, in the amount of \$47,580,000 (See Note 5).

NOTE 14 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, 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 the risks covered by commercial insurance have not exceeded the insurance coverage in any of the past three years.

NOTE 15 – PENDING LITIGATION

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

CINCINNATI STATE TECHNICAL
AND COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2004

<u>Federal Grant/Program Title</u>	<u>Pass Through Number</u>	<u>Federal CFDA</u>	<u>Federal Expenditures</u>
U. S. DEPARTMENT OF EDUCATION:			
Student Financial Aid			
Federal Pell Grant Program		84.063	\$ 6,113,443
Federal Perkins Loan Program		84.038	471,996
Federal Work Study Program		84.033	216,596
Federal Supplemental Educational Opportunity Grant Program		84.007	343,689
Federal Family Educational Loan Program		84.032	<u>10,969,937</u>
Total Student Financial Aid Cluster			18,115,661
TRIO Cluster			
Upward Bound		84.047	171,141
Student Support Services		84.042A	260,696
EOC		84.066	<u>223,337</u>
Total TRIO Cluster			655,174
CPS High School Tutoring, passed through Cincinnati Public Schools	421253	84.341A	23,544
Lab Monitor, passed through Cincinnati Public Schools	426782	84.341A	6,893
Mount Healthy Tutoring, passed through Mount Healthy Public Schools	407099	84.010	8,237
No Child Left Behind, passed through Cincinnati Public Schools	424172	84.010	30,649
Basic Grants to States		84.048	211,941
Information Technology Grant		84.323A	23,515
Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP), passed through the University of Cincinnati	P000-030-J617/ P000-030-E968	84.334A	299,831
Child Care Solutions		84.335A	22,857
Disability Grant		84.333A	204,612
Paraprofessional Grant		84.367A	<u>4,934</u>
Total U. S. Department of Education			19,607,848

(Continued)

CINCINNATI STATE TECHNICAL
AND COMMUNITY COLLEGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2004

<u>Federal Grant/Program Title</u>	<u>Pass Through Number</u>	<u>Federal CFDA</u>	<u>Federal Expenditures</u>
HEALTH AND HUMAN SERVICES			
Tutoring Grant, passed through Hamilton County per DHS	83347	93.558	47,317
HCOP Grant		93.822	<u>143,573</u>
			190,890
FEDERAL AVIATION ADMINISTRATION, DEPARTMENT OF TRANSPORTATION			
FAA Airport Grant		20.106	<u>137,471</u>
Total Federal Awards			<u>\$ 19,936,209</u>

(Continued)

CINCINNATI STATE TECHNICAL
AND COMMUNITY COLLEGE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2004

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, 2004:

Unsubsidized Stafford Loan	\$	6,103,130
Subsidized Stafford Loan		4,732,069
PLUS Loan		134,738

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, 2004. Only the outstanding loan balance is included in the accompanying Schedule of Expenditures of Federal Awards totaling \$471,996 at June 30, 2004.



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, 2004, and have issued our report thereon dated October 7, 2004. 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.

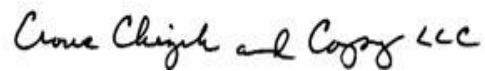
Internal Control Over Financial Reporting

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. However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated October 7, 2004.

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*.

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

Columbus, Ohio
October 7, 2004



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, 2004. The College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the College's management. Our responsibility is to express an opinion on the College's compliance based on our audit.

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

In our opinion, the College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. However, the results of our auditing procedures disclosed instances of noncompliance with

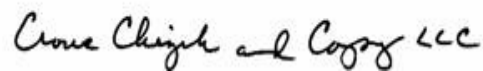
those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 04-01 through 04-03.

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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 or performing their assigned functions. We noted no matters involving the internal control over compliances and its operations that we consider to be material weaknesses.

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
October 7, 2004

CINCINNATI STATE TECHNICAL AND COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2004

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, 2004.
2. There were no instances of noncompliance material to the financial statements of Cincinnati State Technical and Community College which were disclosed during the audit.
3. There were no reportable conditions relative to internal control over major federal award programs.
4. The auditors' report on compliance for the major federal award programs for Cincinnati State Technical and Community College expresses an unqualified opinion.
5. There were audit findings relative to the major federal award programs for Cincinnati State Technical and Community College identified as findings 04-01 through 04-03.
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
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, 2004

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD AUDIT

See findings 04-01 through 04-03.

D. CORRECTIVE ACTION PLAN

See individual findings.

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, 2004

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

Criteria: Under 34 CFR 690.83, a school must submit Pell disbursements made to the Common Origination and Disbursement Center (COD) no later than 30 days after the disbursements are made to the students.

Condition: 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.

Effect: According to the federal regulations, schools that do not submit the required records on time and schools that submit incomplete records could have their Pell allocations reduced and may be fined.

Cause: The cause of the 27 students reported after the 30 days required appears to be a transitional period at the College and reporting to the COD was a manual process.

Recommendation: We recommend that the College review its current system for submitting disbursement information to the COD and make the necessary changes to ensure that this information is submitted within the requirement timeframe.

Management's Response and Corrective Actions: During the 03/04 award year, our process for reporting Pell Grant recipients was manual. Although we were full COD participants, the process was not yet electronic. Each term, our administrative software (Datatel) generated a report of Pell recipients and the amounts received. Each student was manually entered into the EDExpress. The manual process was further slowed because the previous year's Return to Title IV process was behind schedule, and we were focused on reporting those Pell Grant returns.

The Return to Title IV process is now up to date. In addition, an electronic reporting process has been implemented wherein our administrative software directly reports Pell returns to EDExpress weekly. No delays beyond the 30-day requirement are anticipated.

(Continued)

CINCINNATI STATE TECHNICAL
AND COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS –
MAJOR FEDERAL AWARDS
June 30, 2004

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

Criteria: The regulations concerning student financial aid and Return to Title IV calculations state that for students who officially withdrew from the College and received some type of Title IV funds, the institution must prepare a determination of any funds to be returned to the various federal agencies. The regulations go on to state that a school must return the amount of Title IV funds for which it is responsible no later than 30 days after the date the College becomes aware of the student's separation.

Condition: During our testing of 25 students that officially withdrew from the College and received some type of Title IV funds during the 2003-2004 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.

Questioned Costs: Upon review of the calculations performed for those students who officially withdrew, we noted that there was one federal program whose funds were not returned within the 30-day limit. The aid determined to be returned consisted of \$2,533.31 of Unsubsidized and \$2.47 of Subsidized Stafford Loans under the Federal Family Education Loan Program and another \$593.64 of Subsidized and \$593.64 Unsubsidized funds that were not returned. The student's calculation with an incorrect withdraw date included \$324.85 of Subsidized Stafford Loan funds under the FFEL Program determined to be returned by the College.

Effect: The University is not in compliance with the federal regulations monitoring the Return to Title IV procedures and allows the risk for future funding to be penalized.

Cause: The cause of this finding appears to be errors made in a process performed manually by College employees.

Recommendation: We recommend that the College review its current procedures for Return to Title IV calculations and make the necessary changes to ensure that all personnel are communicating accurate information and all understand the treatment of retroactive withdraws.

Management's Response and Corrective Actions: During the 2003/2004 award year, the Returns to Title IV process lacked clear coordination between the Business Office and the Financial Aid Office, which caused delays. This has been corrected. The Financial Aid Office has designated primary and secondary Return to Title IV coordinators who are responsible for recording the financial aid reductions in our student database and for communicating those reductions to the Pell and loan coordinators that day. The Business Office and the Financial Aid Office reconcile each day. This increased collaboration assures that Return to Title IV changes are made within two days.

(Continued)

CINCINNATI STATE TECHNICAL
AND COMMUNITY COLLEGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS –
MAJOR FEDERAL AWARDS
June 30, 2004

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

Criteria: Under 34 CFR 668.167, the College must return FFEL program funds to a lender if the institution does not disburse those funds to a student or parent for a payment period within three business days following the date the institution receives the funds if the lender provides those funds to the institution by EFT on or after July 1, 1999.

Condition: 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.

Questioned Costs: The following Federal Family Education Loan funds were received and returned to the lender or disbursed to students past the required three days: \$8,494.29 Subsidized Stafford Loans and \$10,055.04 Unsubsidized Stafford Loans.

Effect: Failure to return funds within the required guidelines could adversely affect future funding to the College under this program.

Cause: The cause of this finding appears to be the result of a manual process.

Recommendation: We recommend that the College review its current procedures and make the necessary changes to ensure that FFEL funds disbursed to students are made under the regulatory three days as stated 34 CFR 668.167.

Management's Response and Corrective Actions: During the 2003/2004 award year, loan returns were processed manually. The Financial Aid Office would receive loan disbursement rosters, but did not have an expedient way to determine which of the loans not disbursed should be returned. Coordination with the Business Office to make this determination was time consuming.

Because Datatel is not Common Line Five compliant, an electronic process has not been implemented. However, the Financial Aid Office now directly accesses Datatel reports to determine which loans will be sent back to lenders. Each roster is completed the same day it is received. These processing changes are designed to assure the return of loan proceeds within the three-day requirement.

CINCINNATI STATE TECHNICAL
AND COMMUNITY COLLEGE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2004

Finding 03-1 - Federal Perkins Loan Program (CFDA No. 84.038)

The College did not maintain the cohort default rate required to receive the federal capital contribution under the Federal Perkins Loan Program. The College's cohort default rate for 2003 was 36.36%, as reported on the 2003 Fiscal Operations Report and Application filed with the U.S. Department of Education.

Status: Corrective action has been taken.



**Auditor of State
Betty Montgomery**

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800-282-0370

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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
FEBRUARY 10, 2005**